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methanex

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We believe that it's in stakeholders' best interests to advise that this document contains forward-looking statements. These are statements involving uncertainties and risks that may cause the stated outcome to differ materially from the actual outcome. Consequently, readers are cautioned not to place undue reliance on forward-looking statements. For more information on forward-looking statements, including important factors that can cause anticipated outcomes to differ materially from actual outcomes, we refer you to page 48 of this report.

Except where otherwise noted, all dollar amounts in this report are stated in United States dollars.

Methanex is the global leader in methanol production and marketing. Methanol is typically produced from natural gas, and is a basic chemical building block. It is used to produce formaldehyde, acetic acid and a variety of other chemical intermediates. These derivatives are ultimately used in the manufacture of countless products that we find in our everyday lives, including: resins, adhesives, paints, inks, foams, silicones, plastic pop bottles, polyester, solvents, Spandex and windshield washer fluid. A significant amount of methanol is also used to make MTBE (methyl tertiary butyl ether), an additive used in cleaner-burning gasoline. Methanol is also used directly as a fuel.

Our plants are located in New Zealand, the United States, Canada and Chile. We source additional methanol through marketing agreements with plants located in the United States and Trinidad, and also through spot market purchases. Our extensive global marketing and distribution system makes us the largest supplier of methanol to each of the major international markets. In 1998, our sales accounted for roughly 23% of the total world market for methanol.

The Methanex World

(all capacities in tonnes of methanol per year)

METHANEX
FLEET OF VESSELS
(* UNDER CONSTRUCTION)



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Methanex 1998 Financial Highlights

Income and Operating Cash Flows

(thousands \$US)

	1998	1997
REVENUE	720,879	1,299,380
Cost of sales and operating expenses	(703,881)	(930,850)
Depreciation and amortization	(106,812)	(117,057)
Interest expense	(21,680)	(32,423)
Interest and other income	25,547	34,153
Income and other taxes	17,499	(51,215)
NET INCOME (LOSS)	(68,448)	201,988
Add (deduct):		
Depreciation and amortization	106,812	117,057
Deferred income taxes	(1,389)	40,818
Other	12,369	10,665
CASH FLOW FROM OPERATIONS¹	49,344	370,528
Increase (decrease) in cash position	(204,618)	108,424
Cash and cash equivalents, end of year	287,698	492,316
EBIT²	(64,267)	285,626
EBITDA²	42,545	402,683

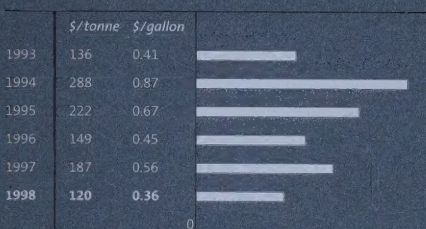
	1998	Q4	Q3	Q2	Q1
Methanol sales volume (thousands of tonnes)					
Produced product	4,479	1,249	1,293	1,024	913
Purchased product	1,532	325	368	307	532
Realized methanol price					
\$/tonne	120	103	107	114	158
\$/gallon	0.36	0.31	0.32	0.34	0.48
Per share information					
Income (loss)	(0.39)	(0.12)	(0.12)	(0.16)	0.01
Cash flow ¹	0.28	0.06	0.06	(0.01)	0.17

¹ Before changes in non-cash working capital

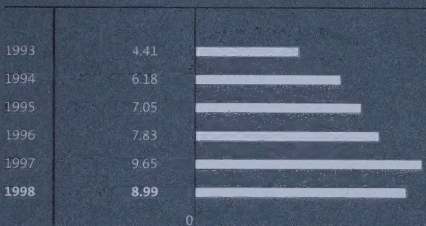
² Includes interest income

Highlight Statistics

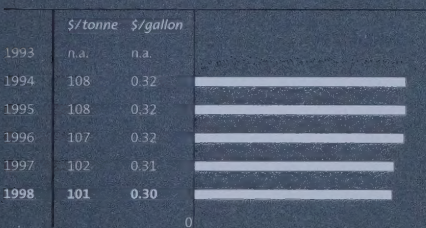
Average Realized Methanol Price



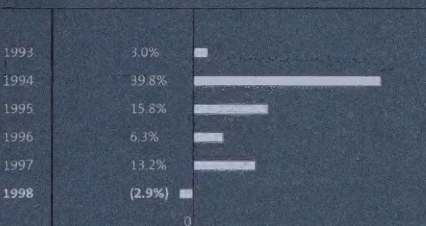
Production per Share (U.S. gallons)



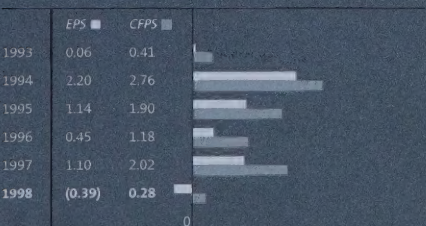
Normalized¹ Delivered Cash Cost



Return on Capital Employed (ROCE)



Earnings and Cash Flow per Share (\$)



¹ Actual delivered cash cost, excluding SG & A, adjusted for natural gas and methanol pricing and capacity utilization to allow us to measure progress against strategic targets



Pierre Choquette
*President, Chief Executive Officer
and Director*

To Our Investors

1998 was a challenging year for our company. A combination of reduced demand for methanol and additions of new capacity led to the lowest global prices experienced in our industry in over fifteen years. As a result, Methanex had a net loss of \$68 million (\$0.39 per share) and cash flow from operations declined to \$49 million (\$0.28 per share).

A year ago we shared our concern that the addition of new capacity around the world was coming at a time of great uncertainty in Asia; we believed that the combination of these two factors would likely have a negative impact on methanol pricing. In fact, over a twelve-month period starting in the second half of 1997, 2.9 million tonnes of new capacity, equivalent to 11% of world demand, came on stream in Asia, Europe and the Middle East. And we estimate that global demand for methanol declined 1.0 million tonnes during the year. In this environment, prices plunged by almost 40% over a three-month period in early 1998 and they have since remained at depressed levels. Our average realized price in 1998 was \$120/tonne (\$0.36 per gallon) compared to \$187/tonne (\$0.56 per gallon) in 1997. The year over year changes in net income and cash generation are almost entirely due to this reduction in methanol pricing.

In spite of the disappointing results, we ended 1998 in a strong financial position. High liquidity continues with cash reserves of \$288 million and unutilized, unsecured bank lines of \$291 million. From an operating perspective, our sales volumes recovered significantly in the second half of the year to within 6% of the record levels of 1997, and our total unit delivered cash costs in the same period were the lowest in the company's history.

1998 YEAR IN REVIEW

In last year's President's Message, I emphasized that our fundamental strategy of low cost, global positioning and operating excellence would remain unchanged. This has continued to be the case and we are making progress in all three areas.

Low Cost

This particularly difficult time in our commodity cycle has reinforced our conviction that our longer-term goals can only be achieved with a superb cost structure for all our assets. We continue to implement our plans to meet this objective.

Chile

Production from our two methanol units in Chile exceeded 1.7 million tonnes in 1998. This site met all expectations in terms of efficiencies and cost. Plant gate cash costs at this site are 40% lower than the average of all our other plants. Completion of a third unit at a cost of \$305 million is on track for completion in early 1999. This will allow the site to continue to improve its competitive position as the premier methanol site in the world. Our asset in Chile can earn its cost of capital even at the low prices experienced on average for 1998.

New Zealand

The production units in New Zealand produced 1.8 million tonnes in 1998. While we have successfully achieved annual reductions in cash costs through continuous improvement, the greatest impact on our costs is the availability of significant quantities of new gas at an attractive price. During 1998, we negotiated the commercial terms for additional gas that would accomplish our objectives, and we expect gas suppliers to confirm in 1999 what quantities of gas are available.

North America

In 1998, we successfully reduced the fixed cash costs at our three North American sites by 4%. These costs are now \$7 million lower than they were in 1996. We are planning further reductions in 1999, thus reducing total fixed costs by close to 27% over three years. Unfortunately, these major achievements have been offset by high and volatile natural gas costs. Two of these sites are operated in partnerships: in Louisiana, U.S.A., our partner is Cytec Industries and in British Columbia, Canada, it is Pacific Ammonia. In 1999, we will renew our efforts to find solutions to these high-cost assets.

Logistics

We have reduced our logistics and shipping costs by implementing changes to our shipping-related assets and improving our operating efficiency. The move towards large vessels, the use of in-region terminals and the time chartering of modern newly built ships represent just some of our initiatives. Operational improvements include the renegotiation of all possible vessel contracts, increased product swaps, purchases from other producers and more efficient vessel utilization. We have also been successful in achieving innovative rail tariffs with an existing rail carrier. The impact of these logistics savings is enhanced as we increase the capacity utilization of our assets.

Global Positioning

Our corporate objective is to maintain world leadership in methanol marketing, logistics and sales. We also seek out and develop opportunities for further expansion of the methanol market. In 1998, we had mixed results.

Market Presence

Our total sales volume of 6.0 million tonnes was 13% below the record levels of 1997. During the first half of 1998, we were impacted by the significant reduction in demand in Asia, competitive pressures from the entry of new players worldwide and the loss of the gasoline blending market in Brazil. Our annualized sales rate for the first six months was 5.5 million tonnes. In the second half of 1998, our global sales recovered to an annual sales rate of 6.5 million tonnes. This illustrates our ability to react quickly to industry changes and to use our global network to maximize value creation. In fact, we achieved record sales volumes in North America, thereby partially offsetting reductions in market demand in Asia and Latin America. By the end of 1998, we had restored our global share to about one-quarter of the world's market.

Market Development

We made significant progress on the market development front in 1998. Our focus has continued to be on the development of diesel/methanol blends and the promotion of methanol as the source of hydrogen for fuel cells. It is now generally recognized that methanol is a viable (and many say the preferred) fuel for the early introduction of fuel cells in the auto industry. Our small market development group was globally influential in making this progress. While the ultimate prize of commercialization and methanol sales is still five years away, we believe this is an exciting development for our company.

Operating Excellence

We have focused on a few areas of operating excellence to improve the quality of our enterprise.

Manufacturing

In manufacturing, we have established an effective global team with the mandate to attain the highest standards of manufacturing excellence. This global team captures the operating experience of all five manufacturing sites to constantly raise the bar in performance and expectations; the end result will be safer, lower cost and more reliable operations for our plants.

Finance and Liquidity

We have continued to take a prudent approach to financial management by maintaining healthy cash reserves and flexible bank facilities. By year-end, we had renegotiated our unsecured bank lines to extend the term and flexibility of these facilities. These bank lines are currently unutilized.

People Leadership

Our commitment to leadership training continued in full force in 1998. All leaders have had the opportunity to receive external training to improve their coaching skills. An externally conducted employee survey in 1998 showed strong improvement over our 1996 survey results and benchmarked us among the best in terms of our people practices.

LOOKING FORWARD

Our senior management will continue to emphasize low cost, global positioning and operating excellence to create maximum value for shareholders. The start-up of our very low-cost third plant in Chile, the prospects for new gas in New Zealand, the regional shipping terminal in Asia, the new large ships to be commissioned in 1999 and early 2000, the finalization of large longer-term contracts with new customers and our continuous improvements in manufacturing will take us closer to our longer-term objectives. This is an ongoing process and we continue to make significant progress every year.

In 1999, we will explore various options for the delivery of value to our shareholders, and focus on three particular aspects of risk surrounding our business.

Excess Supply

We expect that prolonged ‘bottom of the cycle’ pricing for methanol will result in a significant restructuring of our industry and we will be proactively looking to capitalize on opportunities during this period. There is simply too much methanol capacity for the anticipated demand.

MTBE — Methyl Tertiary Butyl Ether

This important end-use product for methanol remains under attack. Its detractors continue to ignore all the positive scientific evidence that has repeatedly supported MTBE’s important role in reducing emissions and contributing to cleaner air. There are valid issues associated with MTBE, but we believe there are also viable solutions. Unfortunately, the debate seems to have left the realms of science, logic and common sense, and politics appear to have taken over.

We will continue to devote substantial resources to defend and promote MTBE, and we will develop contingency plans to allow us to optimize our business in the event of a negative outcome.

Our High-Cost Assets

Current pricing levels highlight the poor cost position of some of our North American assets. We are resolved to find solutions for these assets in 1999.

PREPARED FOR THE CHALLENGES AHEAD

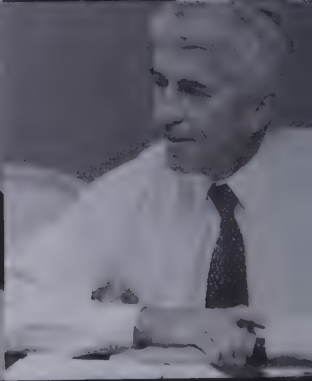
In the short-term, our industry is faced with the prospect of poor profitability driven by excess supply and low levels of pricing, as well as the ongoing uncertainty surrounding MTBE. We are well positioned to face these near-term market challenges and we will remain fully engaged in the MTBE issue. With our focus and financial strength, we will extract maximum value from the current environment.

On behalf of our employees, I want to thank you for your support and confidence.

A handwritten signature in black ink, reading "Pierre Choquette". The signature is fluid and cursive, with a large initial "P" and "C".

Pierre Choquette

President and Chief Executive Officer
February 22, 1999



John Gordon
Vice President,
Corporate Resources

Allan Cole
Vice President, Finance
and Chief Financial Officer

Ron Britton
Vice President, North America
and Global Technology

Bruce Aitken
Vice President, Asia-Pacific

Our Senior Management Group



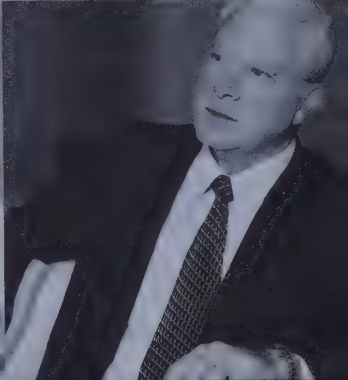
Jim Emmerton
*Vice President, General Counsel
and Corporate Secretary*



Mike Wilson
*Executive Vice President
Global Marketing
and Corporate Development*



Pierre Choquette
*President, Chief Executive Officer
and Director*



Rodolfo Krause
*Vice President, Latin America
and Global Manufacturing Excellence*

1998 Corporate Events Review

January

Our subsidiary, Waterfront Shipping Company, receives ISO 9002 certification.

Building on our Responsible Care initiative, we join the Chemical Distribution Institute (CDI), an organization that conducts third-party audits for vessels.

February

Methanol prices begin a steep decline brought on by industry oversupply.

We complete our C\$ 5 million environmental upgrading at the Kitimat production site.

March

Our second global employee survey attains an 88% response rate and shows top-quartile results when measured against peer companies.

April

We announce a normal course issuer bid to repurchase up to 10.7 million shares.

We purchase small quantities of new, low-cost gas for the New Zealand assets.

We complete a successful maintenance turnaround at the Waitara Valley production site.

May

Our Chile I plant has a seven week unplanned shutdown due to a mechanical failure. This was **an insured event.**

June

We continue to improve our safety performance during successful maintenance turnarounds at Medicine Hat and Kitimat.

October

We commit US\$ 10 million to build a terminal at Yoesu, Korea, to better serve our Asian customers.

November

Our Chile II plant completes twelve months of continuous operation producing 1,032,610 tonnes — well above the design capacity of 925,000 **tonnes per year.**

We celebrate our tenth anniversary of exporting methanol from our Chile production hub.

December

Our new, low-cost plant in Chile is 86% complete.

Questions and Answers

David Silver Credit Suisse-First Boston, New York

With methanol pricing experiencing some cyclical weakness, can you comment on your financial condition, with specific emphasis on your cash requirements over the next few years?

At the end of 1998 we had \$288 million in cash. The completion of our third plant in Chile in early 1999 will consume approximately \$80 million. For 1999, we will require \$80 million for planned maintenance capital and \$10 million for the construction of a terminal in Asia. This level of capital is high due to the concentrated timing of several major plant turnarounds. Looking forward, maintenance capital should be nominally \$40-50 million per year based on our forecast cycle of maintenance turnarounds. Under historic trough conditions, cash generation with the new Chile plant in operation should exceed maintenance capital requirements. In addition to our cash balance, we have \$291 million in undrawn credit facilities and, at 26% debt to capitalization, are conservatively leveraged.

Edwin Chee Nesbitt Burns, Toronto

How does Methanex plan to use its cash resources and free cashflow after the completion of Chile III?

We have a simple three-point philosophy regarding cash. Our first priority is to ensure adequate liquidity to run our business, and this requires special financial prudence due to the cyclical nature of the methanol industry. Second, we look to fund strategic investments from existing liquidity. Having met these two priorities, we will then return excess cash to our shareholders. To date, we have shown a preference for returning cash through share buybacks, having repurchased approximately 25 million shares over the last few years.

How can Methanex take advantage of the poor market conditions in the U.S. Gulf?

We can benefit from the current market conditions by exercising discipline and by pursuing opportunities that arise as the industry restructures. The U.S. Gulf represents much of the higher cost capacity in the industry, and we have seen a few of these producers recently shut-in production. We expect this trend to continue; we expect industry restructuring; and we expect to participate in that restructuring — not by purchasing assets, but by capturing additional sales.

We have been using our own U.S. Gulf Coast plant, Fortier, as a flexible supply point, optimizing its production economics as compared to alternate supply sources including our other plants, as well as the spot market.

A methanol plant seems to be the quickest way for a natural gas producer to generate cash flow if there is no domestic gas market. Given this, why does Methanex feel it can continue its successful leadership role in a world where methanol plants are built wherever there is cheap gas to be found?

There are no absolute barriers to entry to the methanol business; however, initial funding requirements and market entry are major considerations for new entrants. The lack of barriers no doubt contributes to the large swings in methanol supply and the resulting fluctuations in pricing. Given these industry characteristics, our strategy has been to establish a leadership position based on differentiation, including: cost, market position, logistics, industry knowledge, market development and performance. We have successfully executed this strategy, attracting high-quality, growth-oriented customers, thus reinforcing our leadership. We will continue this strategy to maintain our leadership position.

Bob Hastings Goepel McDermid, Vancouver

The general public does not believe government and private studies showing that MTBE poses no significant health or environmental risk.

What will be the impact on Methanex if MTBE is removed as an allowable oxygenate under the U.S. RFG program and what is Methanex doing to improve the situation?

Frank Mitsch Deutsche Bank Securities, New York

Although some scientific studies support the use of MTBE in RFG, its use in California is under attack. What is the most likely outcome and what are the implications for methanol demand?

Brian MacArthur Bunting Warburg Dillon Read, Toronto

MTBE has come under significant pressure in California and Maine. How does Methanex view future demand for MTBE and has this influenced your strategy?

With methyl tertiary butyl ether (MTBE) representing almost one-third of global methanol demand, the threat to this product, especially in California, is a key issue for the industry. Our response to the issue has been largely science-based, but the growing political nature of the debate seems to ignore science. Some unbalanced media coverage has worsened the situation. We've recently taken a more direct involvement in the debate, and have already seen some balance return to the media coverage. This is encouraging. We now need to successfully communicate our perspective to the opinion-formers and the decision-makers. The science of MTBE, and its significant contribution to cleaner air, is a very positive story.

A key issue is the reformulated gasoline (RFG) oxygenate mandate. One part of the solution could well be to provide refiners more flexibility to meet the intent of the U.S. Clean Air Act Amendments. This would still allow MTBE to play its important role in the U.S. gasoline supply, but any increased flexibility must not be at the expense of the air quality benefits already achieved.

California's MTBE consumption represents approximately 6% of global methanol demand. Californian agency studies have advised against any immediate ban on MTBE, but they have suggested a phase-out over six years as being economically tenable for the state. Confined to California, this could also be tenable for the industry — 6% over several years compared to a 4% annual growth rate for methanol.

We are also actively managing our market exposure to MTBE demand.

We will continue to provide leadership and to commit resources to MTBE, and we hope that science and common sense will prevail. Most of all, however, we want to resolve this issue so we can manage the outcome and get on with our business.

Erica Belling

Newcrest Capital, Toronto

With the momentum increasing for more flexible HFG programs, which would likely result in lower MTBE demand, what opportunities are there for methanol in the fuel sector?

Although possible, flexibility does not necessarily mean reduced MTBE demand. MTBE is the refiners' oxygenate of choice, and it's an excellent source of octane. Further, the demand for cleaner-burning gasoline is growing around the world.

There is potential for large-scale use of methanol in fuel cells where auto manufacturers, like the newly formed DaimlerChrysler, have already expressed a preference for methanol as the fuel source. Based on present technology, a two-percent market penetration by methanol-powered fuel cell vehicles equates to 18 million tonnes per year of methanol demand, or almost a 70% increase over the present level of global demand.

Other fuel sector opportunities include our licensed diesel/methanol blend, power generation and, of course, direct usage.

With fuel cell technology being embraced by auto manufacturers, what specific steps is Methanex taking to ensure that methanol and the company itself becomes the supplier of choice in the future?

We are focused on developing strong relationships with fuel cell manufacturers, auto manufacturers and fuel retailers. Auto manufacturers have already expressed their preference for methanol as the fuel cell, 'fuel of choice,' and we want to ensure that methanol fulfills this promise. In 1997, we signed an agreement with Ballard Power Systems related to the commercialization of methanol-powered fuel cells. We continue to concentrate on initiatives to develop a methanol-refueling infrastructure so that fuel supply is not a barrier to commercialization of methanol-powered fuel cell vehicles. In addition, we are working with all stakeholders to ensure we understand their unique requirements. By playing the leadership role in progressing methanol as the fuel of choice, we expect to achieve a significant first-mover advantage.

What do you believe are the areas of long-term growth for methanol?

We believe methanol will continue to show steady growth at higher than GDP on average in its traditional end uses. Formaldehyde growth is linked to GDP growth via housing starts and construction, while MTBE growth in the U.S. is linked to increasing gasoline consumption, and elsewhere, to the accelerating pace of emissions control and environmental progress. Acetic acid demand growth is stronger than GDP growth due to increasing use of its derivatives and technology factors. New demand growth will most likely occur in the fuels sector. We are focusing our market development efforts on the

potential growth areas for methanol. In particular, we are actively involved in the progress of methanol-powered fuel cells and in the development of our licensed diesel/methanol blend, which shows potential for reducing the vehicle particulate emissions being targeted by regulators.

Brian Dunning

CIBC Wood Gundy, Toronto

Despite Methanex being a low-cost producer on average, some of your North American plants do not enjoy the cost advantages of the Chilean or New Zealand assets. What is Methanex doing to improve its cost competitiveness in North America?

Sam Kanes

Scotia Capital Markets, Toronto

You focus on value creation and believe you have delivered. Given the lower cost structures of new plants under construction, including your own, how much value destruction at existing high-cost plants is taking place?

In terms of value creation, resolving the situation of our higher cost plants in North America is a top priority for 1999. This will be an easier task with the start-up of our third Chile plant, which will afford us more flexibility in our internal supply options. However, addressing our North American plants is not a simple issue since we have partners and long-term commitments at both the Kitimat and Fortier plants.

At Kitimat, we have reduced our controllable costs by \$3 per tonne over the last three years. Our major natural gas transportation contract is up for renewal in 2002, and this provides significant leverage as we press hard for substantial cost concessions. We are also exploring innovative natural gas purchasing strategies that could lead to further savings and reduced natural gas pricing volatility.

At Fortier, we are working with our partner, Cytec, to find a solution. While we are actively exploring a number of options, we do not yet have any clear plan identified.

At Medicine Hat, we have a niche market for about 0.5 million tonnes, and the balance of production (0.3 million tonnes) offers excellent flexibility. We will use this flexibility as we start-up our new Chile plant.

Mike Binette TD Securities, Toronto

Are there any tangible strategic/synergistic advantages in having NOVA as a major shareholder?

At 27%, NOVA is our largest shareholder and represents a significant block of shares, providing ownership stability. There are no current synergies between Methanex and NOVA, but we both require large quantities of natural gas, and there may be synergistic opportunities in the future. On our Board, NOVA contributes a profound understanding of the issues pertinent to a commodity chemical company like Methanex.

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global delivery

accountability

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manage

uncertainty

Our actions are decisive

as we execute a strategy that should provide earnings growth. The elements of success are in place. We've built significant assets, nearly doubled our methanol production per share over the past five years and reduced costs. But there's one variable that can't be controlled — the price of methanol.

Uncertainty is part of business. It's how you manage it that makes the difference. Our strategy includes a focus on low cost, dependable methanol production and prudent financial strategies . . .

Our customers value the security of supply we provide from our multiple product-sourcing options around the world. We are the most dependable methanol supplier, and this has won us additional business and grown our market position.

Our disciplined and prudent approach in our use of cash first ensures liquidity to operate the business and then funds strategic investments from existing liquidity. This allows us to execute our strategy with certainty, and on our own terms. Our commitment to returning any excess cash to our shareholders has been demonstrated with the repurchase of 25 million shares over the past few years.

MTBE's future is a key aspect of our business that we can't control. The MTBE issue has become increasingly political at the expense of science, common sense and logic. We are adapting our response as the debate unfolds.

. . . we're actively taking steps to identify and manage the uncertainties of the future.



You'll
find us
everywhere

of

global

connect

worldwide



ability to
connect
worldwide

You'll find us everywhere

and our presence will grow as we link methanol to emerging global trends. Methanol already replaces harmful solvents, helps conserve forests and oil reserves, insulates homes and helps reduce tailpipe emissions from our cars. Now, it's being heralded as the 'fuel of choice' for the next generation of environmentally friendly vehicles.

By forging connections around the world, we've become the only global methanol player . . .

We deliver methanol to our customers through our global methanol pipeline. It's a virtual pipeline of ships, barges and railcars connecting our plants to our terminals in the major markets and to our customers worldwide.

With our presence in every region, we gain market intelligence that connects us to opportunities in the changing global marketplace. And our 'cultural fluency' allows us to understand and act on new opportunities.

By developing new demand, we expand our worldwide relationships, grow our market position and cement our industry leadership.

Another distinct competitive advantage is our ability to connect our manufacturing experience — sharing best practices to improve our plant operations, reduce cost and increase reliability. This enhances our global methanol pipeline.

. . . with our sights on the future we're working to turn opportunities into realities.



We're
stating
our objectives

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on our word

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deliver

on our word

We're stating our objectives

and working to deliver on them. While we've already created significant value, little of it has so far been accessible to our shareholders in terms of share price appreciation. This is disappointing and a major source of frustration for us. We're delivering on our objectives and we intend to deliver the value too.

As well as providing our product to customers, we're providing results . . .

Some have suggested we're too conservative, but we know our business and its cyclical nature is reflected in our prudent financial management. Besides, we've also delivered excess cash to our shareholders.

We've undertaken two major projects in Chile for just under \$600 million and added two expansions in New Zealand totaling \$100 million. We deliver projects within budget, on schedule and from our own cash.

Since establishing our global marketing team in 1994 we've increased our sales volume at almost twice the industry growth rate. We've expanded our market position and delivered growth.

With the start-up of our third Chilean plant in early 1999 we will have nearly doubled our production capacity with little addition to our overhead costs. And since 1994, we'll have reduced our cost structure by over ten percent. In a commodity business, this is a very significant achievement.

We're also responsible to our people and communities, and have embraced Responsible Care as a cornerstone of our business.

. . . we set objectives, hold ourselves accountable and deliver.

dependability

globalability

accountability

methanexability



principles set out
audit protocol that we

methanol

(firms) to be able to

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A high-contrast, black and white photograph of a skateboarder in mid-air, performing a trick. The skateboarder is wearing a light-colored long-sleeved shirt, dark pants, and a striped beanie. The skateboard is visible below their feet. The background is a bright, overexposed outdoor setting, possibly a park or beach, with some foliage visible in the lower left. The overall tone is dynamic and energetic.

at play

composite wood products (equipment)

moulding compounds

paints

plastics

Polarfleece

polyester fabrics

polyester fibrefill

Spandex

textile treatments

RESPONSIBLE CARE

Responsible Care, developed by the Canadian Chemical Producers Association (CCPA), is a product life-cycle approach to operating a manufacturing business — from product inception through production to ultimate disposal. It's an integral part of our business, forming the 'umbrella' under which we implement our safety, health, environment and community programs. We reinforce these programs with our management and leadership practices.

For us, Responsible Care begins at our Board, where we have a Responsible Care and Public Policy Committee, and extends through our production plants to our marketing and logistics operations. We have also taken Responsible Care to our suppliers and customers, and to the communities in which we operate.

While Responsible Care is really an ethic, the CCPA developed guiding principles set out in six codes of practice. Our interpretation of these codes is represented in an audit protocol that we apply to our operations to ensure ongoing compliance, to identify opportunities for improvement and to manage for assurance. These audits often include third-party observers. All our operations have been verified by the CCPA as meeting the code requirements, and we believe we were the first global chemical company to achieve this status when we did so in 1997.

Some of the countries in which we operate have different standards than those applied in North America, and our policy is to adopt the most stringent of the local or CCPA practices at our plants. In addition to this principle regarding differing regional standards, we take a balanced approach to safety, the environment and production. If we had to make a choice, however, safety would be our highest priority.

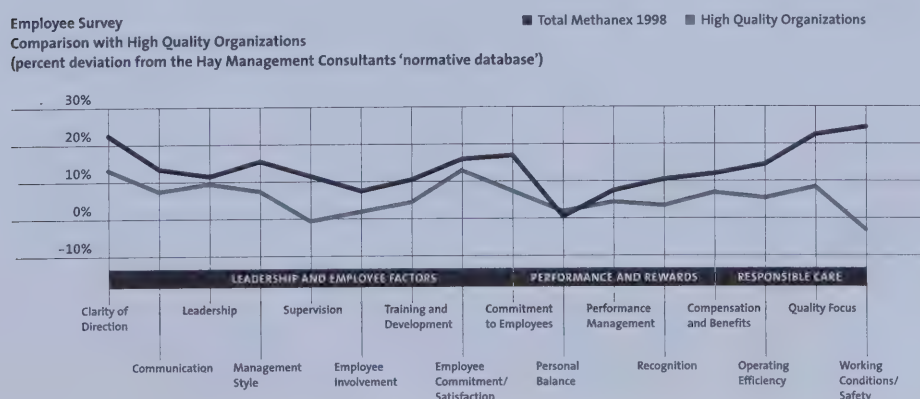
Finally, our shareholders should also have a keen interest in Responsible Care as it adds value to their company. Not only has it improved our business, won us customers and provided cost savings, our commitment to Responsible Care also positions us to compete within the global trends of increasing social responsibility and environmental consciousness.

Employee Survey

Our employees are the key to achieving Responsible Care successes.

In early 1998 we conducted our second employee survey, and achieved a very high global participation rate of 88%. The previous survey was undertaken in 1996, and both surveys were administered by the same independent third party. The results of the latest survey showed improvement in all but one of 16 factors surveyed, with improvement of more than 10% in seven of the factors. Our results exceeded those of 'high quality' organizations in all but one factor. And that factor tells us that while our employees are highly committed, a number of them are not satisfied with their personal balance between work and home.

Employee Survey
Comparison with High Quality Organizations
(percent deviation from the Hay Management Consultants 'normative database')



The employee survey also included questions related to Responsible Care, and our responses were 20-25% more favorable than those for a peer group of organizations. Our employees believe Responsible Care — as measured by “concern for employees,” “environmental consciousness” and “safety focus” — is key to our future corporate success.

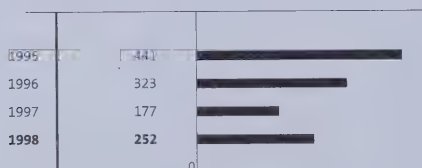
Safety Performance

During the year, our manufacturing organization revised its performance measurement parameters, including several related to Responsible Care. We established a consistent set of measures to make meaningful comparisons across plants and regions and to observe trends. Over time, this should allow increased quantitative performance analysis as our database grows.

Unfortunately, we had more safety incidents in 1998 than in 1997. And we are saddened to report the death of a contractor’s employee on the Chile project construction.

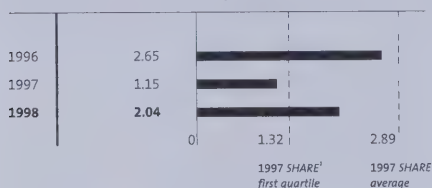
The increase in safety incidents was largely attributable to the high level of turnaround maintenance activities in 1998. Most incidents were low-severity first aid cases such as cuts, strains and ‘grit in the eye.’ Our overall data represents combined employee and contractor statistics because this reflects the true level of incidents associated with our business. We use contractors on our turnarounds, and they incurred first aid injuries at a rate several times that of our own employees. This is a disturbing industry characteristic that continues to attract our management’s attention, and we are pleased to report that contractor safety performance on our 1998 turnarounds was measurably better than in previous high turnaround years.

Total Methanex and Contractor Safety Incidents



The most readily comparable safety parameter across industry is the employee ‘recordable incidents’ (RI) frequency rate. The frequency rate is defined as ‘incidents per 200,000 exposure hours,’ where exposure hours are the total number of hours worked by employees. As a reference, we had almost 1.6 million exposure hours in our plants in 1998. RI’s include incidents requiring medical attention or resulting in restricted work, as well as ‘lost-time injuries’ (LTI). An LTI is recorded when a person is unable to return to work the day following an injury.

Methanex Recordable Incidents (excludes contractors)



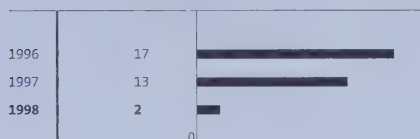
¹ SHARE is a CCPA database and the acronym stands for Safety & Health Accident Reporting Experience

Our Chile plants sustained no RI’s in 1998, while our overall RI performance was between average and first quartile compared to 1997 Canadian industry data (1998 data was not available at the time of writing this report). Two of our plant sites showed an improvement in their RI performance from 1997 and two showed a higher incidence of RI’s, with one site alone contributing most to the decline from 1997’s first quartile performance.

Environmental Performance

Overall, our environmental performance improved in 1998 compared to 1997, primarily because we had fewer permit exceedences. A permit exceedence occurs when a plant discharge exceeds the limits defined by regulatory permits. In last year's report we described our C\$ 5 million upgrade to the effluent facilities at our Kitimat plant. This project, successfully commissioned in early 1998, has made a big contribution to our improved environmental performance.

Kitimat Environmental Permit Exceedences



Responsible Care in Action

Occupational Health

International methanol specifications have historically included an odor test, which required technicians to 'sniff' each batch and shipment of product. Deliberate inhalation of methanol vapour is prohibited in health and safety practice, and we therefore developed and adopted an analytical technique to replace the sniff test. As reported last year, we were seeking to have the international methanol specifications eliminate the sniff test, and are pleased to report that one of the two specifications has deleted this test. We look forward to the other specification following suit in 1999. We have completely eliminated the sniff test from our operations, and are happy to provide the details of the analytical test method to the industry upon request.

Communities

We have active community advisory panels operating at all our facilities, providing a forum for dialogue with our communities on matters such as new projects or community concerns.

Social Investment

Our social investment focuses on community outreach initiatives in the communities where we have operations and where our employees live. Our corporate social investment in 1998 was approximately \$0.5 million, and much of this amount matched funds raised or pledged by employees.

Market Development

Responsible Care is an integral part of our market development activities for new methanol demand. For example, the diesel/methanol blend we are currently developing includes a licensed emulsifier. We have studied the emissions characteristics of the fuel and have developed safety and handling guidelines in preparation for a safe and successful introduction of this fuel. And for the fuel cell application, intensive work is underway to ensure methanol would be handled in a safe manner.

Customers

In each of 1997 and 1998 we undertook approximately 50 customer, terminal and vessel assessments, and we plan to increase this number to more than 60 assessments annually from 1999 onwards. These assessments extend Responsible Care beyond our operations, forming part of our product stewardship commitment. We estimate these assessments have so far involved more than a quarter of our customers (measured by sales volume). In 1998, we undertook vessel assessments for the first time, covering three vessels, and we plan to assess our complete time charter fleet in 1999.

"Would Methanex refuse to supply a customer who did not meet Responsible Care practices?" The answer is "Yes," but we have not yet been forced to make that decision. Our approach is to work with customers, and we've found them keen to accept our help to improve their performance.

Suppliers

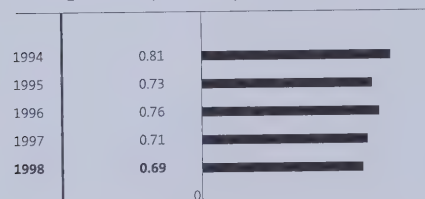
Our suppliers undergo a biannual written Responsible Care self-assessment based on guidelines we provide to them. Those suppliers providing chemicals and other more hazardous products and services also undergo a regular site assessment by our employees.

Greenhouse Gases

The methanol production process results in significant carbon dioxide (CO₂) emissions of a tonne or more of CO₂ per tonne of methanol. The actual ratio depends on the methanol technology (and hence often plant age), the feedstock and any export of by-product hydrogen from the methanol process. These emissions are typically low pressure and difficult to recover, and the process has thermodynamic constraints.

We have CO₂ emission reduction programs in place and actively participate in voluntary reduction initiatives.

Total CO₂ Emissions (tonnes CO₂ per tonne methanol)



Voluntary Challenge Award

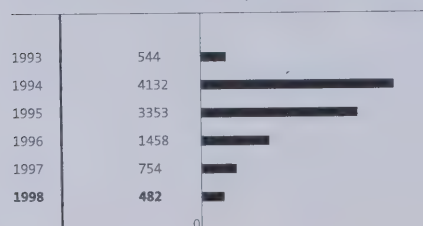
Voluntary Challenge & Registry Inc. (VCR) is a Canadian stand-alone, not-for-profit corporation encouraging private and public sector organizations to voluntarily limit or reduce their net greenhouse gas emissions as a step towards addressing Canada's climate change goals. VCR has over 700 members, and Methanex was selected as one of three finalists to receive VCR's 1998 chemical sector award. VCR's award criteria include leadership, emission reduction progress, senior management support, organization-wide actions and policies, education programs and innovation.

Medicine Hat Methanol Emissions

In both 1997 and 1998 our Medicine Hat site was included on a list entitled "The 50 North American Facilities with Largest Total Releases and Transfers of Chemicals." The data reflected our 1994 and 1995 methanol emissions, and the list makes no distinction regarding toxicity. Ground-level testing at the time indicated that methanol concentrations did not approach levels of any concern for human health. Also, since it biodegrades readily, methanol is essentially environmentally benign. Our inclusion on the list was misleading.

The uncharacteristically high methanol emissions at Medicine Hat resulted from process changes implemented in 1993 that expanded the plant capacity and used imported CO₂ as incremental process feedstock. Once the problem was identified, we designed and implemented changes and the emissions have been reduced by almost 90%.

Medicine Hat Methanol Emissions (tonnes methanol)



Levy Refund in New Zealand

Each year, we pay approximately NZ\$ 400,000 in worker compensation levies for our New Zealand operations. In 1998, we received a NZ\$ 123,000 refund for our “success in reducing the incidence and severity of workplace accidents.” This exemplifies the tangible benefits we achieve through Responsible Care – fewer injuries and reduced costs.

EPA Award in Louisiana

Our Fortier plant was awarded the prestigious EPA (U.S. Environmental Protection Agency) Region 6 pollution prevention award for reducing deep-well-injection of an ammonia effluent stream. Region 6 for the EPA includes Texas, Louisiana, Arkansas and Mississippi.

We are in the process of completing our first stand-alone Responsible Care annual report. The report will be oriented towards the needs of our plant neighbors and communities, and it should be available during Q2'99. We will be happy to provide copies upon request.

The Dichotomy of Chemicals

While the general public may have an inherently negative perception of ‘chemicals’ and their associated industries, we have all likely come to accept, expect and even embrace the consumer products, convenience and resultant quality of life enabled by these industries. The section breaks and inside back cover of this report illustrate methanol’s contribution to our modern lives, making methanol an excellent example of this dichotomy.

Approximately one-third of total methanol demand is consumed to make formaldehyde, which is largely used to produce resins used in reconstituted wood products such as plywood, laminated timber and fiber board. These products are used extensively in homes and buildings, allowing lower-cost construction and replacing solid lumber, which greatly enhances utilization of the world’s timber resources.

MTBE, which represents approximately another one-third of global methanol consumption, has been demonstrated to significantly improve air quality through reduced vehicle tailpipe emissions. MTBE also preserves the world’s oil resources by extending gasoline, and is an excellent source of octane as consumers demand higher performance and safer gasoline blends. (“Octane” is used in broad terms to denote the ‘octane number’ specification commonly associated with gasoline.) Furthermore, MTBE replaces lead and reduces the carcinogenicity of gasoline by diluting the amount of benzene, a known human carcinogen.

As discussed elsewhere in this report, MTBE’s continued use in California and elsewhere is, however, in question. The MTBE issue is quite political, and is another very relevant example of the chemicals dichotomy.

And as we look forward to the next generation of vehicles, those powered by fuel cells, we see a huge opportunity for methanol. Many of the major auto manufacturers have already declared methanol to be their fuel cell ‘fuel of choice.’ This will be yet another example of methanol improving the quality of our lives.

CORPORATE GOVERNANCE

Good corporate governance uses appropriate processes and structures to provide proper direction and management of the business and affairs of a company. It is central to the effective, efficient and prudent operation of a company. Our corporate governance practices are consistent with the objectives of the guidelines established by the Toronto and Montreal stock exchanges.

One of those guidelines relates to the definition of limits of responsibility, and it requires that the Board of Directors has a clear mandate. Our governance practices do not align with this guideline in a literal sense because our Board retains plenary power, requiring that its mandate not be limiting. However, we believe our policy in respect of this guideline is consistent with both sound practice and the guideline's intent.

Board of Directors

The Board is responsible for supervising the management of our business and affairs, and it establishes the overall policies under which we operate. The Board also evaluates and approves our strategic direction, and members of the Board have participated with management in the development of our strategic plan.

The Board approves significant business issues and corporate plans as well as major transactions such as acquisitions, divestitures, financing and significant capital expenditures.

Our Board has a wealth of experience relevant to our business. This includes experience in commodity chemicals, other commodities such as forest products and metals, finance, business development and international business. A full listing and more detailed information about our Board members can be found in the Annual Information Form on page 98 of this report.

Our Directors are kept informed of the performance of our operations at regularly scheduled meetings of the Board and its Committees, through reports and analyses prepared by management and by other professional advisors as appropriate. During 1998, our Board met formally on six occasions and there were also nine Committee meetings. The overall non-executive Board member attendance rate at these meetings was 98%. Our management, especially our President and Chief Executive Officer (CEO) Mr. Pierre Choquette, also communicates frequently with our Directors on an informal basis.

NOVA Chemicals Corporation (NOVA) is our major shareholder and holds 27.0% of our shares. During the year, Mr. Ted Newall left our Board and was replaced by Mr. Dan Boivin. Mr. Jeffrey Lipton was elected the new Chairman, and Mr. Terry Poole remains as a third NOVA executive on our Board. These three gentlemen are all officers of NOVA. Mr. Lipton is not an employee of Methanex and is not involved in our day-to-day management.

As with several of our other Board members, Mr. Choquette also serves as a director of other companies. These are: BCT.Telus Communications Inc., Echo Bay Mines Ltd., and Gennum Corporation.

Committees of the Board of Directors

The Board has established three standing committees, each with delegated responsibilities and instructions to perform advisory functions and make reports and recommendations to the Board. Appropriate senior management is represented at each committee.

Audit, Finance and Risk Committee

Brian D. Gregson – Chair

R.J. (Jack) Lawrence

Terence A. Poole

Graham D. Sweeney

The Audit, Finance and Risk Committee meets with our financial officers and our independent auditors to review (among other matters) financing, financial reporting, controls and procedures, audit procedures and plans, risk management, the investment of Company pension funds and our annual report. This Committee met five times in 1998.

Human Resources and Corporate Governance Committee

Jeffrey Lipton – Chair

Robert B. Findlay

R.J. (Jack) Lawrence

David Morton

Graham D. Sweeney

The Human Resources and Corporate Governance Committee is responsible for reviewing matters that include senior appointments, succession planning, compensation and social investment policy. It is also responsible for the composition, performance, compensation and governance of the Board. This Committee approves the written annual corporate objectives of our CEO and reviews the CEO's performance relative to those objectives. The Committee met twice in 1998.

Responsible Care and Public Policy Committee

Graham D. Sweeney – Chair

Daniel W. Boivin

Robert B. Findlay

Brian D. Gregson

David Morton

The Responsible Care and Public Policy Committee is responsible for matters such as the environment, occupational health and safety, government relations and public affairs issues that impact significantly on the Company. In 1998, this Committee met twice. It holds one of its meetings each year at one of our plant sites, where it also conducts a site review.

Board, Employee and Shareholder Alignment

We believe the alignment of employee and stakeholder interests also promotes good corporate governance. The award of stock options and incentive bonuses are probably the most common forms of alignment, but we have also implemented other alignment plans and guidelines.

At the Board and senior management levels we have recently implemented share ownership guidelines:

- Directors should own shares valued at 200% of the annual retainer
- the CEO should own shares valued at 150% of annual base salary
- Vice Presidents should own shares valued at 50% of annual base salary

Board members are expected to meet these guidelines within three years, and executive management within 5 years. At the beginning of 1999, Directors and officers held approximately 220,000 shares of Methanex, which was 0.13% of the total outstanding shares and almost 70% of the guideline level of ownership. While these ownership levels are low compared to our US peers, so too are our levels of stock option grants. We believe we are providing a leadership role for Canadian corporations in terms of share ownership guidelines.

To further promote alignment, Directors and executive officers have the option to participate in the Company's Deferred Share Unit (DSU) Plan. DSU's are notional grants of shares whose value is redeemable when the Director's term ceases or the executive officer ceases employment with the Company. Directors elect annually to receive up to 100% of their retainer and meeting fees and executive officers elect annually to receive up to 100% of their short-term incentive plan award as DSU's. DSU's and actual share ownership are combined for the purpose of meeting the share ownership guidelines, and the majority of our Directors participate in the DSU Plan.

Directors, executives and management are eligible to receive long-term incentive stock option grants, which are made at the market price at the date of issue. The stock option grants have a graduated vesting scale over three years, and expire after ten years. Details of the options granted are included in the Notes to the Consolidated Financial Statements on page 72 of this report. At the end of 1998, options represented 3.2% of the total undiluted shares outstanding.

In 1997, we implemented an employee share purchase plan to encourage share ownership at all employee levels. At the end of 1998, approximately 80% of our employees were shareholders through this plan, and there were approximately 220,000 shares, or 0.13% of the total shares outstanding, held in the plan. As many employees regularly transfer their shares from the plan to their own brokerage accounts, the plan figures probably represent a very conservative estimate of the total level of employee share ownership.

Many employees are eligible for short-term incentive bonuses dependent upon meeting agreed objectives for both individual and Company performance. The level of bonus and dependence upon Company performance increases with organizational seniority. The bonus plan included a threshold minimum 'Return on Capital Employed' (ROCE) in 1998, and as this threshold was not met there were no bonuses awarded under the plan.

Forward-Looking Statements

Statements made in this document that are based on our current expectations, estimates and projections constitute forward-looking statements. Forward-looking statements arise out of our experience, our perception of trends, current conditions and expected future developments as well as other factors. By their nature, forward-looking statements involve uncertainties and risks that may cause the stated outcome to differ materially from the actual outcome.

Important factors that can cause anticipated outcomes to differ materially from actual outcomes include worldwide economic conditions; conditions in the methanol and other industries, including the supply and demand balance for methanol; actions of competitors; changes in laws or regulations; the ability to implement business strategies and pursue business opportunities; the risks attendant with methanol production and marketing, including operational disruption; the risks attendant with carrying out capital expenditure projects, including the Chile III plant; availability of gas feedstock; raw material and other production costs; transportation costs; the ability to attract and retain qualified personnel; the risks associated with investments and operations in foreign jurisdictions and other risks which the Company may describe in publicly available documents filed from time to time with securities commissions.

Having in mind these and other factors, many of which are described in this document, readers are cautioned not to place undue reliance on forward-looking statements. The Company does not guarantee that anticipated outcomes made in forward-looking statements will be realized.

1997 CONSOLIDATED RESULTS

Year ended December 31, 1998

Revenue in 1997 of \$202 million

Financial Highlights

at the wheel

methanol

1998-1999



at the wheel

omists

THE NEW YORK TIMES

THE NEW YORK TIMES

THE NEW YORK TIMES

THE NEW YORK TIMES

THE NEW YORK TIMES

THE NEW YORK TIMES

Management's Discussion & Analysis

Methanex is the world's largest producer and marketer of methanol and the leader in the industry. We operate methanol production facilities located in North America, New Zealand and Chile and source additional methanol produced by others. We sell this methanol through our extensive global marketing and distribution system, and have established a strong market position in all major regions of the world.

This section of the annual report analyzes the 1998 consolidated results, discusses liquidity and capital resources, highlights our approach to risk management, and offers an outlook for the methanol industry.

1998 CONSOLIDATED RESULTS

For the year ended December 31, 1998, Methanex recorded a net loss of \$68 million compared to net income in 1997 of \$202 million.

Financial Highlights

(\$ MILLIONS EXCEPT AS NOTED)	1998	1997
Sales volumes (thousands of tonnes)		
Produced	4,479	5,049
Purchased	1,532	1,854
	6,011	6,903
Average realized methanol price (\$ per tonne)	120	187
Operating income (loss)	(90)	251
Net income (loss)	(68)	202
Cash generated from operations before changes in non-cash working capital	49	371

Operating Income

In 1998, Methanex recorded an operating loss of \$90 million, which compares with operating income of \$251 million recorded in 1997. The decrease of \$341 million was the result of the following:

TWELVE MONTHS 1998 VS. TWELVE MONTHS 1997	(\$ MILLIONS)
Price of produced methanol	(338)
Sales volume of produced methanol	(11)
Contribution from sale of purchased methanol	(15)
Cost of natural gas	—
Depreciation ¹	10
Other, net ²	13
Decrease in operating income	(341)

¹ Due to reduced depreciation in New Zealand

² Includes \$22 million in insurance settlements for recovery of lost contribution from unplanned plant shutdowns

Weaker Price of Methanol

The reduction in operating income in 1998 was principally due to the decline in the price of methanol. In early 1998, market conditions changed from the strong pricing experienced in 1997 to trough market conditions. These conditions lasted for the rest of 1998 and have persisted into early 1999. In 1998, the average price realized was \$120 per tonne compared to \$187 per tonne in 1997. At the end of 1998, the methanol price was approximately \$100 per tonne. This decline in pricing was caused by excess supply resulting from a combination of increased global capacity and reduced demand. Approximately 2.9 million tonnes of new methanol capacity, equivalent to 11% of world demand, came on stream during the period between mid-1997 and mid-1998. We estimate that in 1998, global demand for methanol fell by approximately 4%, or 1 million tonnes, due in large part to the economic crisis in Asia.



Approximately 70% of all methanol is used as a feedstock to produce formaldehyde, acetic acid and numerous other chemical derivatives. The balance is used in the fuels sector primarily in the manufacture of methyl tertiary butyl ether ("MTBE").

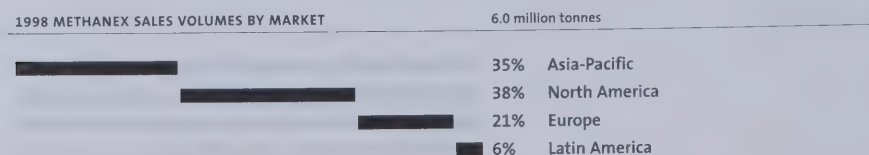
The economic downturn in Asia decreased chemical derivative demand, primarily in the formaldehyde sector. Demand for methanol to produce formaldehyde declined by 6% mainly because Asia produced fewer end-use products such as plywood and particleboard. Methanol demand for acetic acid and other chemical derivatives remained approximately the same in 1998 and 1997.

MTBE demand in 1998 was also stable. In the U.S., demand for MTBE has matured after showing tremendous growth in recent years due to the implementation of clean-air legislation. Outside the U.S., MTBE demand was also about the same as 1997.

Demand for methanol for fuel declined significantly in 1998 because of the suspension of the methanol-ethanol-gasoline ("MEG") program in Brazil due to plentiful domestic supplies of ethanol. We were the largest supplier of methanol into Brazil's MEG program and the loss of this demand was borne mostly by us.

Sales Volumes

Despite the difficult market conditions in 1998, Methanex retained its core customer base and maintained a strong market position in all regions by providing security of supply and superior service to customers. In 1998, sales were 6.0 million tonnes compared to 6.9 million tonnes in 1997. Sales of produced product, our primary source of income generation, were 4.5 million tonnes, 0.5 million tonnes less than 1997. The decline in sales volumes was due to the lost sales to the MEG program in Brazil, the cancellation of an arrangement in Europe to purchase another supplier's methanol for resale and a general decline in customer demand in Asia. Also, 1997 sales included opportunistic sales when some of our Asian competitors experienced unplanned operating problems. On an annualized basis, sales in the first half of 1998 were 5.5 million tonnes and recovered to an annualized rate of around 6.5 million tonnes in the second half of the year.



Methanol Production

In 1998, we used our operating flexibility to match production levels with customer requirements. In addition, planned turnarounds were carried out at Kitimat and Medicine Hat in Canada and the Waitara Valley plant in New Zealand. Chile I had a seven-week unplanned shutdown due to equipment failure and this was an insured event.

(THOUSANDS OF TONNES)	NOMINAL RATED OPERATING CAPACITY	PRODUCTION 1998	PRODUCTION 1997
Kitimat	500	407	480
Medicine Hat	830 ¹	582	756
Fortier ²	400	213	316
Motunui	1,900	1,353	1,395
Waitara Valley	530	435	510
Chile I	800	656	766
Chile II	925	1,044	869
	5,885	4,690	5,092

¹ Excludes Medicine Hat II (270,000 tonnes) which was idled in June 1997

² Represents Methanex's 70% share

Purchased Product Contribution

The decline of \$15 million in contribution from the sale of methanol purchased from other suppliers is due primarily to holding losses experienced when prices declined rapidly in early 1998. During 1997 and into early 1998, we purchased spot material to meet customer requirements, and entered 1998 with almost 500,000 tonnes of purchased methanol either in inventory or committed for delivery. We purchased a large portion of this product at fixed prices and sold it at a loss when methanol prices declined.

Natural Gas Costs

Natural gas is the principal feedstock in the manufacture of methanol and represents a significant portion of production costs. On an aggregate basis, per unit natural gas costs in 1998 were approximately the same as in 1997.

In New Zealand and Chile, natural gas is secured under long-term contracts and prices did not change significantly year over year. In North America, natural gas is purchased under a mix of contracts with fixed and floating prices, and on the spot market. These prices are set in an intensely competitive market and can fluctuate widely.

Natural gas for the Kitimat, Medicine Hat and Fortier facilities is priced off the Sumas, Aeco and Henry Hub indices respectively. Average prices for these indices for 1998 and 1997 were as follows:

(\$ PER GIGAJOULE)	1998	AVERAGE PRICE ¹ 1997
Sumas (Kitimat plant)	\$ 1.75	\$ 1.62
Aeco (Medicine Hat plants)	1.52	1.28
Henry Hub (Fortier plant)	2.14	2.45

¹ Average of monthly published index prices

Overall, per unit natural gas costs for our North American plants remained approximately the same in 1998 and 1997. In 1998, natural gas prices in Alberta and British Columbia increased because of new pipeline capacity to the United States, which has reduced the price differential that existed in recent years between Western Canada and the U.S. Gulf Coast. Our Medicine Hat plants were protected from this increase for much of 1998 because a substantial portion of their natural gas requirements was purchased under fixed price contracts at lower prices.

Non-Operating Income/Expense

(\$ MILLIONS)	1998	1997
Interest expense	22	32
Interest income	26	30
Other, net	—	4

Interest expense in 1998 was \$22 million compared with \$32 million in 1997. The change results from an increase in the amount of interest capitalized related to the construction of our third plant in Chile ("Chile III") which was \$11 million in 1998 and \$1 million in 1997.

Interest income represents interest earned on cash and cash equivalents. Interest income decreased primarily due to lower average cash balances in 1998 compared to 1997.

Income and Other Taxes

The Company's 1998 effective income tax recovery rate of 20% is lower than the combined statutory rate in Canada because a significant portion of the Company's losses were incurred in New Zealand, a jurisdiction in which the Company has significant unrecognized tax deductions and therefore no tax recoveries were available.

LIQUIDITY & CAPITAL RESOURCES

Cash Generated from Operations

Cash generated from operations before changes in non-cash working capital decreased to \$49 million in 1998 from \$371 million in 1997. The lower cash generation in 1998 was due principally to lower methanol prices. In 1998, the Company partially used its substantial cash resources to finance the construction costs of Chile III and several plant turnarounds, and to purchase, in advance of utilization, attractively priced natural gas for the New Zealand operations. Cash balances decreased from \$492 million to \$288 million largely as a result of these investments.

Cash Flow Highlights

(\$ MILLIONS)	1998	1997
Cash generated from operations ¹	49	371
Changes in non-cash working capital	22	(24)
Shares repurchased	(16)	(126)
Construction of Chile III	(167)	(60)
Capital maintenance, turnarounds and catalyst	(49)	(51)
Natural gas for the New Zealand plants ²	(40)	—
Other	(3)	(2)
Increase (decrease) in cash	(204)	108
Cash, end of year	288	492

¹ Before changes in non-cash working capital

² Will be used in 1999 and subsequent years

Financial Position

The Company maintains conservative financial policies that reflect the volatile and cyclical nature of methanol pricing. The Company focuses on maintaining its financial strength and flexibility through prudent financial management. After very strong cash generation in 1997, the Company renewed a share buyback program in early 1998 to allow for the repurchase of up to 10.7 million shares through April 1999. Because of uncertainty in the methanol price environment the Company proceeded cautiously with the program. During 1998, Methanex repurchased 2.2 million shares at a cost of \$16 million.

Methanex entered 1999 in a strong financial position with \$288 million in cash and substantial undrawn credit facilities. In early 1999 we concluded a refinancing to extend the term of our undrawn credit facilities. The new \$291 million facility is unsecured and has a non-amortizing five-year term. The cash and undrawn credit facilities provide us with the financial flexibility and capacity to complete the construction of Chile III and pursue other initiatives.

Capitalization

(\$ MILLIONS)	1998	1997
Cash and cash equivalents	288	492
Undrawn credit facilities	291	387
Liquidity	579	879
Long-term debt	399	398
Shareholders' equity	1,108	1,191
Long-term debt/Capitalization	26%	25%

The credit ratings for the Unsecured Debt Securities¹ at December 31, 1998 remain unchanged from 1997 as follows:

Standard & Poor's	BBB+
Moody's Investor Service	Baa3
Fitch IBCA	BBB+

- ¹ Credit ratings are not recommendations to purchase, hold or sell securities and do not comment on market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future

Capital Projects

Construction of Chile III is progressing on budget and we expect commercial production to begin as planned in early 1999. The cash costs to complete the project were estimated to be \$80 million at the end of 1998 and will be funded by cash flow from operations and available liquidity.

In addition, we estimate capital spending — primarily for maintenance, turnarounds and catalyst — to be \$90 million in 1999 compared to \$49 million in 1998. The increase is due primarily to the concentrated timing of major turnarounds in 1999. The investment in maintenance, turnarounds and catalyst has averaged approximately \$40 million per year over the last four years.

RISK MANAGEMENT

Year 2000

The Year 2000 issue refers to the business implications from the failure of computerized systems and processes to properly deal with dates in the next century. This issue arises because many computer programs and processes use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date and thus perform erroneous operations. Our plant operating systems and business systems are highly computerized and we are dependent on the Year 2000 readiness of many third parties. Consequently, significant data processing and other problems could result. Potential risks of not addressing the Year 2000 issue include business interruption, financial loss and legal liability.

We have given serious attention to the Year 2000 issue. In 1997, we initiated our Year 2000 program to review plant operating and business systems to identify any potential problems and to ensure that all key systems will continue to operate unaffected by the Year 2000 issue. The program has five phases: 1) identifying all component systems, 2) obtaining assessment from component and system vendors as to year 2000 compliance, 3) remedying any problems, 4) testing critical components and 5) developing and implementing contingency plans. The program is structured so that any remedial work is prioritized to minimize business risk. The focus in 1999 will be on completing remediation and final testing, and developing and implementing contingency plans. We believe the program is on schedule to meet the objective of completing necessary remediation and testing of critical systems by mid-1999. Progress to date and plans for 1999 indicate that our business and plant operating systems should be Year 2000 ready in advance of December 31, 1999.

We also depend on the Year 2000 readiness of third parties with whom we conduct business, such as suppliers of goods and services, customers and governments. As part of our Year 2000 program, we are assessing the Year 2000 readiness of key third parties to mitigate the potential risks that the Year 2000 issue poses to us.

Because of the uncertainties surrounding the Year 2000 issue, including third-party readiness, notwithstanding the steps taken by us, there can be no assurance that Year 2000 issues will not have a material adverse impact on Methanex.

To December 31, 1998 the cost of the Year 2000 program, including the costs to modify systems, was \$1 million. Additional costs to complete the program are estimated to be \$2 million. These costs are expensed as incurred.

We have established a governance structure to deal with the Year 2000 issue which includes a Year 2000 Management Committee and the regular monitoring of the status of the Year 2000 program by the Audit, Finance and Risk Committee of the Board.

Operating Risk

Reliability of supply is a competitive advantage for Methanex. We continually manage the risk posed by our production processes and logistics network to reduce or minimize exposures. Our management processes address plant and logistics systems reliability, safety and compliance with environmental guidelines, under the principles of Responsible Care, in all areas of the Company's operations.

Approximately 85% of Methanex production is shipped by ocean vessel under a mix of long- and short-term charter arrangements. Approximately 70% of our ocean shipping requirements are secured under time charters with terms of 2-17 years. The remainder is secured under a mix of contracts with terms of 1-2 years, and through spot arrangements. Most of these vessel charter arrangements have renewal options. This structure provides an appropriate mix of shipping capacity, reflecting factors such as the location of our production facilities, the location and restrictions of the destination ports, and the risks associated with production, customer requirements and the general shipping market.

Financial Risk

The dominant currency in which we transact business is the United States dollar, which is our reporting currency. However, a significant portion of our costs are incurred in other currencies, principally the New Zealand dollar and the Canadian dollar. To a lesser extent, costs are affected by fluctuations between the United States dollar and the Chilean peso, and in the case of revenues, the Euro.

We have implemented a foreign exchange hedging program which is designed to limit exposure to foreign exchange volatility and to contribute towards achieving cost structure targets. We manage our exposure to foreign currencies through forward exchange contracts and currency options. These instruments are used for hedging purposes, not for speculation. Hedging activity is reviewed regularly by the Audit, Finance and Risk Committee of the Board.

In New Zealand, all of the natural gas costs and most of the operating costs to manufacture methanol are incurred in New Zealand dollars. We have used a combination of average rate forward contracts and currency options to hedge a substantial portion of the New Zealand dollar currency exposure through 2003.

In Canada, certain natural gas costs, natural gas transmission costs and certain operating costs to manufacture methanol are incurred in Canadian dollars. Substantially all Canadian dollar currency exposure relating to natural gas fixed price purchase commitments and substantially all non-natural gas costs through 2003 have been hedged using average rate forward exchange contracts and option cap arrangements.

In Chile, certain capital expenditure costs to complete Chile III and certain operating costs to manufacture methanol are incurred in Chilean pesos. Substantially all the Chilean peso exposure relating to the construction of Chile III, and virtually all of the Chilean peso operating costs, have been hedged through 2000 using forward contracts.

OUTLOOK

Methanol is a global commodity and earnings are primarily affected by fluctuations in the methanol price and, to a lesser extent, the price of natural gas in North America.

Supply/Demand Balance

The balance of methanol supply and demand directly impacts the price of methanol. We entered 1999 in trough market conditions due to excess supply. In late 1997 and in 1998 there was significant new capacity added to the industry and in 1999 a substantial amount of new capacity is scheduled for start-up. Total new capacity coming on-stream in 1999, including our own low-cost Chile III facility, is expected to be 4.2 million tonnes or about 16% of global demand. Even with historical demand growth of about 1 million tonnes per year, new supply will far exceed demand growth. This large imbalance between new capacity and demand growth will necessitate substantial restructuring in the industry. Necessary industry restructuring is already starting to take place: three U.S. Gulf producers have currently shut-in production and high cost production outside the U.S. is being curtailed. However, further industry restructuring is needed before the price of methanol will strengthen from the current low cycle pricing. The price of methanol will ultimately depend on the pace and extent of industry restructuring, industry operating rates and the strength of global demand for methanol.

Methanol Supply

Known significant methanol capacity additions (completed, underway or probable) for 1997 to 2001 are as follows:

(THOUSANDS OF TONNES)	1997	1998	1999	2000	2001
Statoil (Norway) (Q2)	830				
Ar Razi III (Saudi Arabia) (Q4)	850				
PT Kaltim (Indonesia) (Q1)		660			
Methanol IV (Trinidad) (Q2)		550			
Chile III (Methanex) (Q2)			975		
QAFAC (Qatar) (Q3)			850		
NPC (Iran) (Q3)			660		
Ar Razi IV (Saudi Arabia) (Q3)			850		
Titan (Trinidad) (Q4)			875		
AMPCO (Eq. Guinea) (Q2)					825
YPF (Argentina) (Q3)					400
	1,680	1,210	4,210	—	1,225

Methanol Demand

Approximately 70% of all methanol is used to produce formaldehyde, acetic acid and other chemical derivatives. These chemical derivatives are used in the manufacture of countless products that we find in our everyday lives. Accordingly, over the long-term, demand growth for methanol from chemical derivatives is driven by growth in global GDP. Methanol demand growth in 1999 for chemical derivatives will depend upon the continued strength of the U.S. economy and economic stability or recovery in countries facing economic problems such as Thailand, Indonesia, Korea, Russia and Brazil.

MTBE is the second largest end-use of methanol and accounts for most of the remaining 30% of global methanol demand. MTBE is currently used as a source of oxygen in gasoline and is considered the 'oxygenate' of choice by the refining industry, due to its compatibility with gasoline, its ease of blending, its availability and security of supply, and cost. MTBE is also used as a source of octane² and replaces

¹ "Oxygenates" contain oxygen and improve the combustion of gasoline in engines, thus reducing emissions

² "Octane" is used in broad terms to denote the 'octane number' specification commonly associated with gasoline

harmful gasoline components like lead and aromatics, especially benzene, which is a known human carcinogen. The U.S. represents over half the global MTBE demand and most of this demand results from clean air legislation that requires an oxygenate in gasoline.

MTBE in gasoline has made a significant contribution to improving air quality in the United States and around the world. The California Air Resources Board concluded that the emissions benefit from cleaner-burning gasoline in California is equivalent to removing three and one-half million cars from California's roads. Also, a study by the Northeast States for Coordinated Air Use Management concluded that MTBE-blended gasoline significantly reduces the cancer potential of gasoline. And while there have been concerns regarding the health impacts of MTBE, there have been several recent studies and none have found MTBE to be a human carcinogen.

The extent to which MTBE will be used in California and elsewhere in the U.S. is currently uncertain and this is a major issue for our industry. In California, Maine, and to a limited extent elsewhere in the U.S., there are concerns because of MTBE's detection in drinking water. Like most oxygenates, MTBE has an affinity for water, which means it will 'leave' gasoline when it comes into contact with water. Gasoline containing MTBE has leaked into groundwater from underground storage tanks ("UST's") and other components of the gasoline distribution system, and has been discharged directly into drinking water reservoirs from two-stroke engines on pleasure craft.

While MTBE continues to attract most of the attention, there is considerable effort being made to resolve the gasoline and water issue. This includes a renewed emphasis to complete the remediation and upgrade of UST's and new initiatives to ban certain pleasure craft from water reservoirs in California. There has also been a rapid development of technologies to remove MTBE from water.

In response to the concerns regarding MTBE detection in water in California, there are a number of legislative initiatives to evaluate the benefits and risks associated with the use of MTBE. These include studying MTBE's contribution to clean air, the implications of MTBE being detected in water, the cost of remediating UST's, and at the extreme, the cost of phasing out MTBE, which has been recommended by some parties. This work has been underway for some time, and the initial stages of resolution are expected in early 1999.

While we and others believe that good sense and science are key in resolving the MTBE and gasoline issue, the political and media attention has almost solely focused on MTBE and this increases uncertainty in the debate. Possible outcomes range from some compromise on the amount of oxygenate mandated to meet clean air standards to an extreme position of phasing out MTBE. Currently, MTBE in California represents approximately 6% of global methanol demand and a phase-out in California would likely have the impact of reducing overall methanol demand growth.

The largest potential for MTBE growth is outside the U.S. This is because there is growing momentum around the world to phase out lead, sulfur, benzene and other aromatics from gasoline. Implementation of clean air standards is continuing in Western Europe and clean air initiatives are on the environmental agenda of a number of Asian and Latin American countries.

In the longer term, there is tremendous potential for methanol for use in fuel cells. We have continued to take an active role in furthering the development and commercialization of fuel cell powered vehicles and several of the major automobile manufacturers including Ford, Honda, DaimlerChrysler and Nissan have indicated that methanol is their 'fuel of choice' for fuel cell powered vehicles. Zero Emission Vehicle legislation, which will become effective in 2003 and 2004 in California, New York and Massachusetts, is expected to influence the timing of commercialization of fuel cell powered vehicles. We are focusing our efforts on initiatives to develop a methanol-refueling infrastructure so that fuel supply is not a barrier to the commercialization of methanol-powered fuel cell vehicles.

Natural Gas

Natural gas is the principal feedstock for the manufacture of methanol. Accordingly, it is important to the profitability of Methanex to have security of supply at favourable prices. We purchase natural gas through long-term contracts or in the open market depending on location.

In Chile and New Zealand, we obtain substantially all of our natural gas through long-term take-or-pay supply contracts.

The gas contracts for the New Zealand operations end in 2003 and 2005. If these plants were operated continuously at full capacity, the contractual natural gas entitlements would be consumed earlier than the expiry of the contracts. In addition, a reduction in the recovery of natural gas from the reserves could potentially reduce the amount of gas available to meet the Company's contractual entitlements. In 1997, we signed a memorandum of understanding with Fletcher Challenge Energy Ltd. to attempt to secure additional large volumes of natural gas to operate the plants at full capacity for the longer term. Although natural gas exploration in New Zealand will continue, there can be no assurance that we will be able to secure additional gas for our New Zealand plants at economically attractive terms.

Natural gas prices for our North American plants can fluctuate widely. We periodically enter into both physical and financial contracts to fix the price of natural gas. At December 31, 1998, a large portion of the natural gas requirements for our North American plants had been secured at fixed prices to March 1999.

Cost Structure

The market uncertainty has reinforced the importance of our drive to lower our cost structure and we currently have a number of initiatives underway to lower costs.

In the first part of 1999, we will complete the construction of Chile III. When this new low-cost plant is fully operational, we intend to adjust production at our higher-cost facilities in order to match global supply to sales and maximize cash generation. In early 2000, we will take delivery of a 96,000 dwt vessel that will be used to ship product from Chile to Rotterdam at roughly 40% savings from current shipping costs on that route. Also, we are planning to construct a new shipping terminal in Asia that will lower logistics costs and increase flexibility.

Even with the cost improvements that we have made to our operations over the last few years, most of our North American assets still do not meet our strategic cost objectives and we will renew the focus on finding solutions for these plants.

Significant Factors Influencing 1999 Revenues and Costs

(\$ MILLIONS, ANNUALIZED)	
Revenues	
Change in price of methanol by \$0.01 per gallon (\$3.33/tonne) ¹	\$20
Costs	
Change in North American gas costs by \$0.10/gigajoule ²	\$4

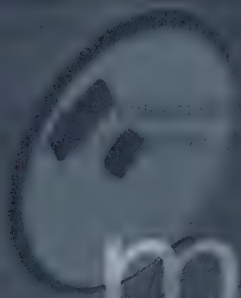
¹ Assumed sales of Methanex produced product of 6.0 million tonnes

² Based on production of 1.3 million tonnes and after giving effect to commitments to purchase natural gas at fixed prices that were in place at December 31, 1998

established policy
financial reports.

ernal controls over the reporting
nal controls, review procedures

know it



methanol

unit of gas available to m
of understanding with

at work

momentum

Severities

adhesives

bleached paper

composite wood products (furniture)

computer disks (magnetic film)

foam cushioning

RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and all financial information contained in the annual report are the responsibility of management. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and, where appropriate, have incorporated estimates based on the best judgment of management.

Management is responsible for the development of internal controls over the reporting process. Management believes that the system of internal controls, review procedures and established policies provide reasonable assurance as to the reliability and relevance of financial reports.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control, and is responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through the Audit, Finance and Risk Committee (the Committee). The Committee, consisting of four non-management directors, reviews the consolidated financial statements, annual report, annual information form and management's discussion and analysis, and recommends them to the Board for approval. The Committee considers, for review by the Board and approval by the shareholders, the appointment of the external auditors. In addition, the Committee reviews and approves unaudited interim financial statements, news releases on interim financial results, and interim reports to shareholders before their distribution. The Committee meets regularly with management and the Company's auditors, KPMG LLP, Chartered Accountants, to discuss internal controls and significant accounting and financial reporting issues. KPMG have full and unrestricted access to the Committee.

KPMG have provided an independent professional opinion on the fairness of these consolidated financial statements. Their opinion is included in the annual report.



Brian D. Gregson

Chairman of the Audit,
Finance and Risk Committee



Pierre Choquette

President and
Chief Executive Officer



Allan S. Cole

Vice President, Finance and
Chief Financial Officer

February 22, 1999

AUDITORS' REPORT TO SHAREHOLDERS

We have audited the consolidated balance sheets of Methanex Corporation as at December 31, 1998 and 1997 and the consolidated statements of income and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada
February 22, 1999

Consolidated Balance Sheets

(thousands of U.S. dollars)


DECEMBER 31, 1998 AND 1997	1998	1997
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 287,698	\$ 492,316
Receivables (note 2)	202,276	245,844
Inventories	70,748	89,272
Prepaid expenses	9,462	12,364
	570,184	839,796
Property, plant and equipment (note 3)	1,140,827	1,064,634
Other assets (note 4)	88,049	68,629
	\$ 1,799,060	\$ 1,973,059
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 106,594	\$ 187,767
Current maturities on long-term debt and other long-term liabilities	9,093	5,145
	115,687	192,912
Long-term debt (note 5)	398,722	398,481
Other long-term liabilities (note 6)	50,676	62,419
Deferred income taxes	126,385	127,774
Shareholders' equity		
Capital stock (note 7)	712,472	720,569
Retained earnings	395,118	470,904
	1,107,590	1,191,473
	\$ 1,799,060	\$ 1,973,059

See accompanying notes to consolidated financial statements.

Approved by the Board:



Brian D. Gregson
Director



Pierre Choquette
Director

Consolidated Statements of Income and Retained Earnings

(thousands of U.S. dollars)

YEARS ENDED DECEMBER 31, 1998 AND 1997	1998	1997
Revenue	\$ 720,879	\$ 1,299,380
Cost of sales and operating expenses	703,881	930,850
Depreciation and amortization	106,812	117,057
Operating income (loss) before undernoted items	(89,814)	251,473
Interest expense	(21,680)	(32,423)
Interest income	25,547	30,076
Other, net	-	4,077
Income (loss) before income taxes	(85,947)	253,203
Income tax recovery (expense) (note 9)	17,499	(51,215)
Net income (loss)	(68,448)	201,988
Retained earnings, beginning of year	470,904	337,255
Excess of repurchase price over assigned value of common shares (note 7)	(7,338)	(68,339)
Retained earnings, end of year	\$ 395,118	\$ 470,904
Weighted average number of common shares outstanding	174,651,426	183,790,226
Net income (loss) per common share	\$ (0.39)	\$ 1.10

The number of common shares outstanding at December 31, 1998 was 173,460,048 (December 31, 1997 — 175,576,823)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

(thousands of U.S. dollars)

YEARS ENDED DECEMBER 31, 1998 AND 1997	1998	1997
CASH PROVIDED BY (USED IN):		
OPERATIONS:		
Net income (loss)	\$ (68,448)	\$ 201,988
Add:		
Depreciation and amortization	106,812	117,057
Deferred income taxes	(1,389)	40,818
Other	12,369	10,665
Cash generated from operations before changes in non-cash working capital	49,344	370,528
Receivables and accounts payable and accrued liabilities	576	2,468
Inventories and prepaid expenses	21,448	(26,596)
	71,368	346,400
FINANCING:		
Repayment of other long-term liabilities	(9,449)	(6,360)
Issue of shares	917	2,817
Shares repurchased	(16,352)	(125,572)
	(24,884)	(129,115)
INVESTMENTS:		
Property, plant and equipment	(178,013)	(153,825)
Accounts payable and accrued liabilities related to capital expenditures	(38,183)	42,533
Other assets	(34,906)	2,431
	(251,102)	(108,861)
Increase (decrease) in cash and cash equivalents	(204,618)	108,424
Cash and cash equivalents, beginning of year	492,316	383,892
Cash and cash equivalents, end of year	\$ 287,698	\$ 492,316

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(Tabular dollar amounts are shown in thousands of U.S. dollars, except where noted)
Years ended December 31, 1998 and 1997

1. Significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada and include the accounts of Methanex Corporation and its subsidiaries. Preparation of these consolidated financial statements requires estimates and assumptions that affect amounts reported and disclosed in the financial statements and related notes. Actual results could differ from those estimates.

(b) Reporting currency:

The majority of the Company's business is transacted in U.S. dollars and, accordingly, the consolidated financial statements have been measured and expressed in that currency.

(c) Cash equivalents:

Cash equivalents include securities with maturities of three months or less when purchased.

(d) Receivables:

The Company provides credit to its customers in the normal course of business. The Company performs ongoing credit evaluations of its customers and maintains reserves for potential credit losses. Credit losses have been minimal and within the range of management's expectations.

(e) Inventories:

Inventories are valued at the lower of cost, determined on a first-in first-out basis, and net realizable value.

(f) Property, plant and equipment:

Property, plant and equipment are recorded at cost. Financing costs incurred during construction are capitalized to the cost of the asset. Depreciation is provided on a straight-line basis, and in the case of the New Zealand assets on a unit-of-natural-gas consumption basis, to amortize the cost of the assets over their estimated useful lives.

Production from the New Zealand operations is dependent on the supply of natural gas from the Maui and Kapuni fields. A reduction in the recovery of natural gas from the fields underlying the contracted gas could potentially reduce the Company's gas entitlements. The Company has entered into discussions with gas suppliers to develop a longer-term gas supply for the New Zealand operations. There can be no assurance that the Company will be able to secure additional gas in New Zealand at economically attractive terms.

Routine repairs and maintenance costs are charged against current operations. At intervals of two or more years, the Company conducts a shut-down and inspection (turnaround) at its plants to perform necessary repairs and replacements of catalyst. Costs associated with these shutdowns are deferred and amortized over the period until the next planned turnaround.

Obligations for future removal and site restoration costs are provided for on a straight-line basis, and in the case of the New Zealand assets on a unit-of-natural-gas consumption basis, to amortize the costs over the estimated useful lives of the assets when a reasonably definitive estimate of the costs can be made.

(g) Other assets:

Other assets are recorded at cost. Amortization is provided on an appropriate basis to charge the cost of the assets against earnings as used.

1. Significant accounting policies (continued):

(h) Foreign currency translation:

The Company translates foreign currency denominated monetary items at the rates of exchange prevailing at the balance sheet dates and revenues and expenditures at average rates of exchange during the year. Foreign exchange gains or losses are included in earnings.

(i) Financial instruments:

The Company uses various derivative financial instruments to hedge its operating exposures to fluctuations in foreign exchange rates, interest rates and natural gas costs. The unrealized gains and losses of these hedges are included in the measurement of the related hedged transaction when realized.

Premiums paid or received with respect to financial instruments are deferred and amortized to income over the effective period of the contracts.

(j) Income taxes:

Deferred income taxes are provided on differences in timing between the treatment for income tax and accounting purposes of various items of income and expenditure.

The Company does not accrue for taxes that will be incurred upon distributions from its subsidiaries unless it is probable that the earnings will be repatriated.

2. Receivables:

	1998	1997
Trade	\$ 90,992	\$ 148,662
Other	111,284	97,182
	\$ 202,276	\$ 245,844

3. Property, plant and equipment:

	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE
1998			
Plants:			
In production	\$ 1,805,769	\$ 905,651	\$ 900,118
Under construction	231,751	—	231,751
	2,037,520	905,651	1,131,869
Other	17,586	8,628	8,958
	\$ 2,055,106	\$ 914,279	\$ 1,140,827

3. Property, plant and equipment (continued):

	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE
1997			
Plants:			
In production	\$ 1,777,593	\$ 823,572	\$ 954,021
Under construction	101,419	—	101,419
	1,879,012	823,572	1,055,440
Other	16,246	7,052	9,194
	\$ 1,895,258	\$ 830,624	\$ 1,064,634

During the year, \$11.2 million (1997 — \$1.1 million) of interest was capitalized to plants under construction.

4. Other assets:

	1998	1997
Marketing rights:		
North America	\$ 17,356	\$ 26,559
Caribbean	2,568	3,331
	19,924	29,890
Foreign currency options	15,354	15,278
Natural gas prepayments	40,100	446
Other	12,671	23,015
	\$ 88,049	\$ 68,629

5. Long-term debt:

	1998	1997
7.40% unsecured notes due August 15, 2002 (effective yield 7.49%)	\$ 149,624	\$ 149,520
7.75% unsecured notes due August 15, 2005 (effective yield 7.83%)	249,098	248,961
	\$ 398,722	\$ 398,481

The Company has available an unsecured revolving bank facility of \$291 million. This facility ranks *pari passu* with the unsecured notes.

6. Other long-term liabilities:

	1998	1997
Site restoration (a)	\$ 39,694	\$ 33,758
Marketing rights (b)	9,093	20,707
Other	10,982	13,099
	59,769	67,564
Less current maturities	(9,093)	(5,145)
	\$ 50,676	\$ 62,419

(a) Site restoration

The Company has accrued for obligations for future removal and site restoration costs. Total costs for currently identified sites are estimated to be \$80 million. During 1998, the Company accrued \$5.9 million with the result that at December 31, 1998, the total amount accrued was \$39.7 million. Because of uncertainties related to estimating future removal and site restoration activities, future costs related to the currently identified sites could differ from the amounts estimated. In the event that the costs are in excess of amounts estimated, management does not anticipate that they will have a material adverse effect on the consolidated financial position of the Company.

(b) Marketing rights

The consideration for the acquisition of North American marketing rights is payable over a five-year period to December 1999, based on a formula related to methanol prices during the period.

7. Capital stock:

(a) The authorized share capital of the Company is comprised as follows:

- 25,000,000 preferred shares without nominal or par value; and
- Unlimited number of common shares without nominal or par value.

(b) Under covenants set out in certain debt instruments, the Company can pay cash dividends or make other shareholder distributions to the extent that shareholders' equity is equal to or greater than \$850 million.

(c) Changes in the capital stock of the Company during the period January 1, 1997 to December 31, 1998 were as follows:

	NUMBER OF COMMON SHARES	CONSIDERATION
Balance, December 31, 1996	189,118,573	\$ 774,985
Issued on exercise of incentive stock options	458,250	2,817
Shares repurchased	(14,000,000)	(57,233)
Balance, December 31, 1997	175,576,823	720,569
Issued on exercise of incentive stock options	79,225	463
Shares repurchased	(2,196,000)	(9,014)
Tax benefits realized	—	454
Balance, December 31, 1998	173,460,048	\$ 712,472

During 1998, the Company repurchased for cancellation common shares at prices in excess of their assigned value. The cost to acquire the shares is allocated \$9.0 million (1997 — \$57.2 million) to capital stock and \$7.4 million (1997 — \$68.4 million) to retained earnings.

(d) At December 31, 1998 and 1997, the following common shares are reserved for outstanding incentive stock options granted to directors, officers and employees (exercise price per share expressed in Canadian dollars):

EXPIRY DATE	EXERCISE PRICE	OUTSTANDING DECEMBER 31, 1997	GRANTED	CANCELLED	EXERCISED	OUTSTANDING DECEMBER 31, 1998
Aug 10, 2002	\$ 7.20	25,000	—	—	25,000	—
Feb 2, 2003	\$ 7.88	156,000	—	—	24,600	131,400
Feb 2, 2003	\$ 8.25	241,500	—	—	—	241,500
Dec 9, 2003	\$ 10.63	242,500	—	—	15,000	227,500
Jan 12, 2004	\$ 11.00	1,363,600	—	—	—	1,363,600
May 31, 2004	\$ 16.25	200,000	—	—	—	200,000
Sep 30, 2004	\$ 23.75	200,000	—	—	—	200,000
Feb 23, 2005	\$ 14.63	545,500	—	13,000	—	532,500
May 31, 2005	\$ 11.25	75,000	—	—	—	75,000
Jul 31, 2005	\$ 11.50	25,000	—	—	—	25,000
Oct 31, 2005	\$ 8.75	40,000	—	—	—	40,000
Feb 15, 2006	\$ 11.00	545,500	—	5,700	14,625	525,175
Mar 5, 2007	\$ 13.65	920,550	—	16,200	—	904,350
Sep 25, 2007	\$ 11.95	30,000	—	—	—	30,000
Mar 4, 2008	\$ 11.60	—	970,000	4,000	—	966,000
Oct 25, 2008	\$ 8.55	—	10,000	—	—	10,000
Nov 30, 2008	\$ 8.60	—	20,000	—	—	20,000
Total		4,610,150	1,000,000	38,900	79,225	5,492,025

Incentive stock options are exercisable at prices equal to the quoted market price at date of grant.

8. Segmented information:

The Company's operations consist primarily of the production and sale of methanol which constitutes a single operating segment.

Revenues attributed to geographic regions, based on location of customers, are as follows:

	CANADA	UNITED STATES	JAPAN	OTHER ASIA	EUROPE	LATIN AMERICA	TOTAL
Revenue							
1998	\$ 44,031	\$ 223,916	\$ 118,567	\$ 132,655	\$ 154,583	\$ 47,127	\$ 720,879
1997	51,888	375,415	205,781	245,933	274,387	145,976	1,299,380

Net book value of property, plant and equipment by country is as follows:

	CANADA	UNITED STATES	NEW ZEALAND	CHILE	TOTAL
Property, Plant and Equipment					
1998	\$ 186,960	\$ 118,672	\$ 217,621	\$ 617,574	\$ 1,140,827
1997	189,321	121,463	244,133	509,717	1,064,634

g. Income and other taxes:

(a) Income tax expense differs from the amounts which would be obtained by applying the Canadian statutory income tax rate to the respective year's income before taxes. These differences are as follows:

	1998	1997
Canadian statutory tax rate	45.0%	45.0%
Computed 'expected' tax recovery (expense)	\$ 38,676	\$ (113,941)
Decrease (increase) in tax resulting from:		
Taxes in foreign jurisdictions	7,612	42,944
Losses not tax-effected	(17,431)	—
Benefits of losses and other tax deductions not previously recognized	—	23,317
Non-deductible costs	(7,805)	(3,774)
Other	(3,553)	239
Total income tax recovery (expense)	\$ 17,499	\$ (51,215)
Income tax recovery (expense) is represented by:		
Cash income tax	\$ 16,110	\$ (10,397)
Deferred income tax	1,389	(40,818)
	\$ 17,499	\$ (51,215)

(b) At December 31, 1998, the Company had available amounts deductible for income tax purposes of \$310 million in New Zealand in excess of accounting values. The tax benefits of these excess deductions, which are subject to final determination by taxation authorities, have not been recognized for accounting purposes. When utilized, the benefit of these amounts will be recognized in income.

In 1994, the Company purchased property, plant and equipment in Canada which had a cost for accounting purposes in excess of the basis for income tax purposes. This difference is being recognized in the Company's income tax provision on a straight-line basis as the assets are depreciated. The unamortized difference at December 31, 1998 is \$76 million.

(c) In 1996, the Company received a proposal from Revenue Canada to reassess the Company's 1991 Canadian income tax return. The potential reassessment may reduce the amount of tax depreciation available at December 31, 1991 and thereby increase cumulative income taxes and interest to December 31, 1998 in an amount aggregating approximately \$93 million.

In a related tax matter, the Department of Justice (Canada), on behalf of Revenue Canada, commenced a civil action in British Columbia in December 1997 naming Methanex as a co-defendant. In December 1998, the Department of Justice advised the Company that it would not be proceeding, ending the action.

The proposal from Revenue Canada to reassess the Company's 1991 Canadian tax return is pending. The Company has responded to Revenue Canada's proposal. It is not determinable whether Revenue Canada's proposal will lead to a reassessment. If a reassessment is issued, the Company will file a notice of objection to appeal the reassessment. Based on advice received from legal counsel, management believes its position should be sustained.

10. Derivatives:

(a) Foreign exchange risk management:

A substantial portion of the Company's business is transacted in its reporting currency, the U.S. dollar. At the Company's Canadian, New Zealand and Chilean production facilities, certain of the underlying operating costs and capital expenditures are incurred in local currencies. The Company uses derivative financial instruments to reduce its foreign exchange exposure on certain committed and anticipated costs related to these operations. In addition, certain revenues in Europe are realized in the German deutschmark. The Company has hedged certain of these exposures by entering into forward exchange contracts and currency options. The following table summarizes the Company's forward exchange contracts and currency options in German deutschmarks (DEM), New Zealand dollars (NZD), Canadian dollars (CAD) and Chilean pesos (CLP) at December 31, 1998:

		NOTIONAL AMOUNT	EXCHANGE RATE	MATURITY
1. Purchase Contracts:				
Average rate forward exchange contracts	NZD	144 million	\$ 0.6334	1999 – 2000
Average rate forward exchange contracts	NZD	212 million	\$ 0.6579	2000 – 2002
Synthetic forward exchange contracts ¹	NZD	230 million	\$ 0.5628	1999 – 2000
Synthetic forward exchange contracts ¹	NZD	186 million	\$ 0.5817	2001 – 2002
Average rate forward exchange contracts	NZD	190 million	\$ 0.4982	2003
Average rate forward exchange contracts	CAD	348 million	\$ 0.7336	1999 – 2002
Average rate forward exchange contracts	CAD	100 million	\$ 0.6714	2003
Average rate option cap arrangements	CAD	65 million	\$ 0.7251	1999 – 2002
Forward exchange contracts	CLP	1 billion	\$ 0.0023	1999
Inflation-linked forward exchange contracts	CLP	21 billion	\$ 0.0023	1999 – 2000
2. Sales Contracts:				
Forward exchange contracts	DEM	22 million	\$ 0.6017	1999
Forward exchange contracts	CAD	81 million	\$ 0.6329	1999

¹ The synthetic forward exchange contracts represent a series of NZD put and call options having identical strike prices and expiry dates

(b) Feedstock purchases:

The Company uses natural gas financial instruments to fix the price of a portion of its feedstock purchases. The instruments are used to moderate risk of fluctuations in feedstock prices. Natural gas financial instruments mature on various dates to March 1999. The fair value at December 31, 1998 was \$0.2 million (1997 — negative \$3.8 million).

11. Fair value disclosures:

The carrying value and fair value of the financial instruments are as follows:

	1998		1997	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Long-term debt	\$ (398,722)	\$ (425,030)	\$ (398,481)	\$ (418,950)
Derivative financial instruments:				
Forward exchange contracts	—	(89,297)	—	(47,317)
Foreign currency options	\$ 15,354	\$ 1,256	\$ 15,278	\$ (13,012)

The fair value of the Company's long-term debt and feedstock commodity financial instruments is determined based on quoted market prices. The fair value of foreign exchange financial instruments is estimated by obtaining quotes from the Company's counterparties for the same or similar financial instruments. Until settled, the fair value of these derivative financial instruments will fluctuate based on changes in foreign exchange rates.

The carrying values of cash and cash equivalents, trade receivables, accounts payable and accrued liabilities, and other long-term liabilities meeting the definition of a financial instrument approximate their fair value.

Included in the fair value of the derivative financial instruments referred to in the table above were unrealized losses of \$38.4 million (1997 — \$19.8 million) related to forward exchange contracts and foreign exchange options to hedge anticipated Canadian, New Zealand and Chilean operating costs for which there is not a contractual agreement in place.

The Company is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments but does not expect any counterparties to fail to meet their obligations. The Company deals with only highly rated counterparties, normally major financial institutions. The Company is exposed to credit risk when there is a positive fair value of derivative financial instruments at a reporting date. Any positive fair value of derivative financial instruments represents the maximum amount that would be at risk if the counterparties failed completely to perform under the contracts.

12. Retirement plans:

The Company has non-contributory defined benefit pension plans covering certain employees. At December 31, 1998, the estimated present value of accrued pension benefits of \$10.4 million approximated the market value of the plan's assets. The Company also has defined contribution pension plans.

Total pension costs charged to operations during the year were \$5.6 million (1997 — \$5.3 million).

13. Commitments:

(a) The Company has commitments under take-or-pay contracts to purchase annual quantities of feedstock supplies and to pay for transportation capacity related to these supplies. The minimum commitment under these contracts for the next five years is as follows:

1999	\$ 193,657
2000	\$ 172,565
2001	\$ 153,625
2002	\$ 152,528
2003	\$ 135,409

(b) The Company has future minimum lease payments under operating leases relating primarily to vessel charter, terminal facilities, office space and equipment for the next five years as follows:

1999	\$ 94,075
2000	\$ 79,180
2001	\$ 70,060
2002	\$ 59,444
2003	\$ 57,000

(c) The Company has commitments to purchase methanol at prices determined by specified margins at the time of purchase. The estimated commitment under these contracts for the next five years is as follows:

1999	662,000 metric tonnes
2000	620,000 metric tonnes
2001	620,000 metric tonnes
2002	120,000 metric tonnes
2003	120,000 metric tonnes

(d) The Company is currently expanding its methanol production facilities in Chile. The Company estimates the remaining capital expenditures for this project will be approximately \$73 million to be incurred in 1999.

14. Year 2000:

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect a company's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the Company, particularly those related to the efforts of customers, suppliers or other third parties, will be fully resolved.

methanol

at home

Annual Information Form (AIF)

February 22, 1999

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REFERENCE INFORMATION

In this Annual Information Form a reference to the "Company" refers to Methanex Corporation and a reference to "Methanex", "we", "us", and similar words refer to the Company and its subsidiaries or any one of them as the context requires and their respective interests in joint ventures and partnerships.

The Company uses the U.S. dollar as its reporting currency. Accordingly, unless otherwise indicated, all dollar amounts in this Annual Information Form are stated in U.S. dollars.

In this Annual Information Form, unless the context otherwise indicates, all references to "methanol" are to chemical-grade methanol and all quantities of crude methanol are given in chemical-grade equivalent terms (i.e., the amount of chemical-grade methanol into which such crude methanol could be converted).

Responsible Care® is a registered trademark of the Canadian Chemical Producers' Association, used under license by Methanex.

Approximate conversions of certain units of measurement used in this Annual Information Form into alternative units of measurement are as follows:

1 tonne	= 2,205 pounds or 1,000 kilograms
1 tonne of methanol	= 332.6 US gallons
1 tonne of gasoline	= 8.62 barrels or 362 US gallons
1 barrel	= 42 US gallons or 159 litres
1 gigajoule	= 0.948 million British thermal units or approximately 1,000 standard cubic feet of natural gas calculated on a higher heating value basis
dwt	= deadweight tonnage

Historical price data and supply and demand statistics for methanol contained in this Annual Information Form are derived by the Company from recognized industry reports regularly published by independent consulting and data compilation organizations in the methanol industry, including Chemical Market Associates Inc. ("CMAI"), Petrochemical Consultants International ("PCI"), SRI International and Tecnon (UK) Ltd. ("Tecnon").

FORWARD-LOOKING INFORMATION

The Company believes that it is in stakeholders' best interests to advise that statements made in this document that are based on the Company's current expectations, estimates and projections constitute forward-looking statements. Forward-looking statements arise out of the Company's experience, its perception of trends, current conditions and expected future developments as well as other factors. By their nature, forward-looking statements involve uncertainties and risks that may cause the stated outcome to differ materially from the actual outcome.

Important factors that can cause anticipated outcomes to differ materially from actual outcomes include worldwide economic conditions; conditions in the methanol and other industries, including the supply and demand balance for methanol; actions of competitors; changes in laws or regulations; the ability to implement business strategies

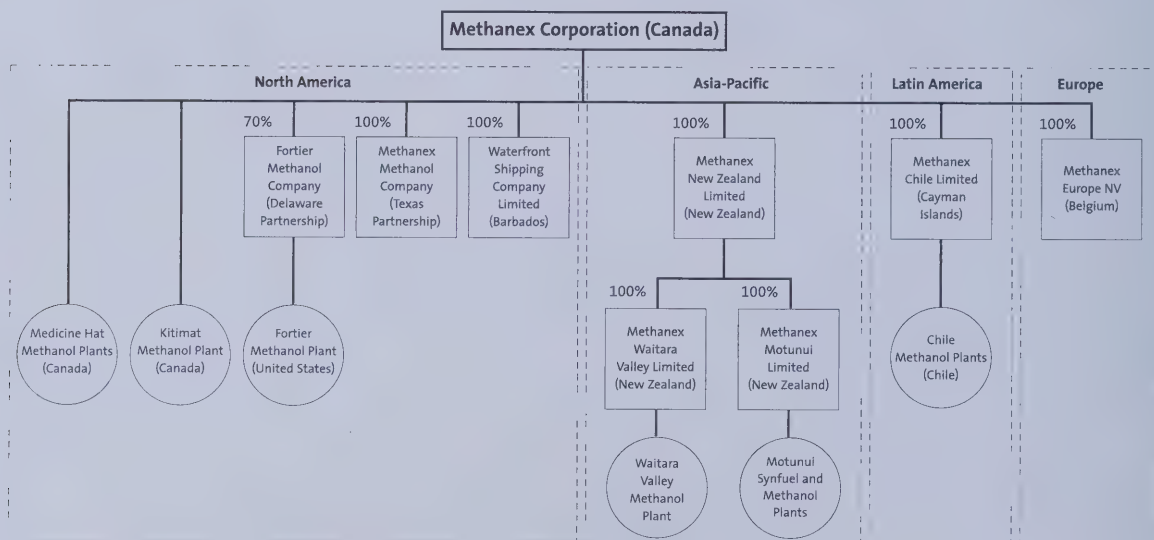
and pursue business opportunities; the risks attendant with methanol production and marketing, including operational disruption; risks attendant with carrying out capital expenditure projects, including the Chile III plant; availability of gas feedstock; raw material and other production costs; transportation costs; the ability to attract and retain qualified personnel; risks associated with investments and operations in foreign jurisdictions and other risks which the Company may describe in publicly available documents filed from time to time with securities commissions.

Having in mind these and other factors, many of which are described in this document, readers are cautioned not to place undue reliance on forward-looking statements. The Company does not guarantee that anticipated outcomes made in forward-looking statements will be realized.

THE COMPANY

The Company was incorporated under the laws of Alberta on March 11, 1968 and was continued under the Canada Business Corporations Act on March 5, 1992. The head office is located at 1800 Waterfront Centre, 200 Burrard Street, Vancouver, British Columbia V6C 3M1 (telephone: [604] 661-2600).

The following chart includes the principal operating subsidiaries and partnerships of the Company as of December 31, 1998 and, for each subsidiary or partnership, the jurisdiction of its organization and the Company's percentage of voting interests beneficially owned or over which control or direction is exercised. The chart also shows our principal production facilities and their locations.



BUSINESS OF THE COMPANY

General

Methanex is the world's largest producer and marketer of methanol. Methanol, produced primarily from natural gas, is a basic chemical building block used to manufacture formaldehyde, methyl tertiary butyl ether ("MTBE"), acetic acid and a variety of chemical intermediates. Due to the diversity of the end products in which methanol is used, methanol demand is influenced by a broad range of economic, industrial and environmental factors.

We operate methanol production facilities located in North America, New Zealand and Chile and source additional methanol produced by others throughout the world. We sell methanol through an extensive global marketing and distribution system. This has enabled us to become the largest supplier of methanol to each of the major international markets.

As a result of our worldwide production, marketing and distribution capabilities, we are a preferred supplier of methanol to major chemical and petrochemical producers for whom quality and reliability of supply are important. Methanex believes it benefits from its preferred supplier status through greater stability and security of demand, and resulting marketing and transportation synergies.

Methanex also has facilities capable of gasoline production at its Motunui plant, where the production-switching flexibility allows crude methanol to be either distilled to yield chemical-grade methanol or converted into synthetic gasoline through a unique conversion process. The gasoline facility was idled in 1997 and the Company does not currently plan to use it in the near future.

The following table shows certain financial and operating data for our methanol and gasoline operations:

(REVENUE IN MILLIONS OF U.S.\$; PRODUCTION AND SALES VOLUME IN THOUSANDS OF TONNES)					
YEAR ENDED DECEMBER 31	1998	1997	1996	1995	1994
METHANOL					
Revenue	\$ 720.9	\$ 1,294.3	\$ 911.5	\$ 1,179.1	\$ 1,402.9
Production	4,690.2	5,091.7	4,455.3	4,005.9	3,622.3
Sales volume					
Company-produced product	4,478.5	5,048.7	4,579.9	3,939.8	3,403.3
Purchased product	1,532.3	1,853.9	1,556.9	1,381.7	1,471.2
Total sales volume	6,010.8	6,902.6	6,136.8	5,321.5	4,874.5
GASOLINE					
Revenue	\$ —	\$ 5.1	\$ 34.2	\$ 54.2	\$ 72.2
Production	—	13.9	177.5	289.6	466.6
Sales volume	—	22.5	182.5	308.0	459.0

Methanex's operations consist primarily of the production and sale of methanol, which constitutes a single operating segment. See "Selected Consolidated Financial Information — Segmented Information."

Corporate Strategy and Development of the Business

Since the early 1990s, Methanex has expanded its global methanol production and marketing reach and has carried out a strategy designed to enable us to become a low-cost producer and preferred supplier in the methanol industry. As a result of this strategy, we have developed a global presence in the methanol industry, allowing us to provide reliable, efficient and cost-effective delivery of methanol from geographically diverse locations to customers in the world's methanol markets.

In the very early 1990s the Company owned a facility producing methanol and ammonia in Kitimat, British Columbia and an interest in a U.S.-based methanol marketer, Methanex Methanol Company ("MMC"). We then acquired methanol production facilities and methanol marketing arrangements, including a small interest in Trinidad-based Caribbean Methanol Company ("CMC"), exclusive marketing rights to the majority of CMC-produced methanol as well as a right to purchase methanol from an Enron Clean Fuels Company ("Enron") methanol production facility. We went on to acquire certain European methanol marketing and trading operations and a 70% interest in Fortier Methanol Company ("FMC") which, at the time, was converting a Fortier, Louisiana ammonia plant into a methanol facility. In 1993, we combined our business with Fletcher Challenge's methanol and synthetic gasoline business, which included the Waitara and Motunui facilities in New Zealand and the Chile I methanol plant.

Over the past five years, Methanex has continued to carry out its strategy through the following transactions and capital expansion projects:

1994

- In January, in exchange for Common Shares and cash, Methanex acquired substantially all of the methanol business and operations of NOVA Corporation, including the three adjoining Medicine Hat plants in Alberta. At the same time, the Company issued and sold additional Common Shares to NOVA Corporation for cash and NOVA Corporation became the Company's largest single shareholder.
- In September, FMC completed the conversion of the Fortier facility into a methanol production plant.
- In October, Methanex announced a new capital expansion project for its facility in Chile, involving construction of Chile II (a new plant adjacent to the Chile I plant).
- In December, Methanex completed construction of an additional distillation unit ("Distillation III") at its Motunui facility.

1995

- In June, Methanex acquired the remaining minority interest in MMC.
- In June, Methanex completed construction of Distillation IV (another distillation unit) at its Motunui facility.
- In August, Methanex sold its interest in the ammonia facility at Kitimat.
- In December, Methanex gave notice of termination of its arrangement with Enron.

1996

- During the year, Methanex added three newly built time charter vessels of 30,000 dwt each to its fleet of dedicated methanol ships.
- In September, Methanex announced a new capital expansion project at its facility in Chile, involving construction of Chile III (a new plant that will be adjacent to the existing plants) which is expected to be completed in early 1999 with a nominal rated capacity of 975,000 tonnes.
- In December, Methanex took a write-down of \$93.4 million (net of tax) for the planned 1997 idling of Medicine Hat Plant 2 and for the planned idling of the Waitara Valley plant in early 1998.
- In December, Chile II came on-stream adding 925,000 tonnes to Methanex's production capacity.

1997

- In June, Methanex terminated its agreement to market methanol produced at the Leunawerke plant in Germany.
- In July, Methanex placed an order for a new 45,000 dwt and a new 96,000 dwt time charter vessel. The latter is approximately twice the size of any of the vessels currently in its fleet of dedicated methanol ships. During the year, Methanex also added two newly built time charters of 45,000 dwt each to the fleet.
- In July, Methanex completed the idling of its Medicine Hat Plant 2.
- In August, Methanex entered into a memorandum of understanding with Fletcher Challenge Energy Ltd. to attempt to secure additional gas supplies for its New Zealand plants. As a consequence, the decision to idle the Waitara Valley plant was put on hold.
- In September, Methanex sold its 10% equity interest in CMC. Methanex retained its exclusive rights to market the output from CMC's plant in Trinidad.

- In November, Methanex entered into a memorandum of understanding with the Qatar state oil and gas company to initiate a feasibility study to consider the development of a new low-cost Middle East methanol production hub.
- During the year, Methanex idled the production of gasoline at its Motunui plant for an indefinite period.

1998

- In October, Methanex committed \$10 million to build a terminal at Yeosu, Korea, to better serve its Asian customers.
- By the end of the year, the Chile III project was almost 90% completed.

The combined effect of the transactions and capital expansion projects described above has been to position Methanex as the global methanol industry leader operating through a transnational production, marketing and logistics network.

Methanol Industry Information

General

Methanol (chemical formula CH₃OH and also known as methyl alcohol) is a clear colorless liquid which is typically used as a chemical feedstock.

Approximately two-thirds of all methanol is used in the production of formaldehyde, acetic acid and a variety of other chemical intermediates which form the foundation of a large number of secondary derivatives. These secondary derivatives are used in the manufacture of a wide range of products including plywood, particleboard, foams, resins and plastics. The remainder of methanol demand is in the fuel sector, principally as MTBE, which is blended with gasoline as a source of octane¹ and as an oxygenate² to reduce the amount of harmful exhaust emissions from motor vehicles. Methanol is also being used on a small scale as a direct fuel.

Methanol is a typical commodity chemical characterized by cycles of oversupply resulting in lower prices and idled capacity, followed by periods of shortage and rapidly rising prices as demand catches up and exceeds supply until increased prices justify new plant investment. In addition, the expanding number of different uses for methanol and its derivatives over the last several years has resulted in the methanol industry becoming more complex and subject to increasingly diverse influences.

Demand Factors

Reflecting the diversity of its uses, methanol demand is influenced by a wide range of economic, industrial and environmental factors. The demand for methanol has two primary components: for use in the production of formaldehyde, acetic acid and other chemical products ("chemical derivative demand") and for the production of MTBE and for use as a fuel ("MTBE and fuel demand"). Historically, chemical derivative demand has accounted for the bulk of methanol demand. Because of the importance and relative stability of chemical derivative demand, methanol traditionally had been considered to be a mature commodity. However, in recent years, MTBE demand has become increasingly important.

Chemical Derivative Demand. Methanol consumption in the production of commercial formaldehyde is approximately 45% by weight of the product. The largest use for formaldehyde is as a component of urea-formaldehyde and phenol-formaldehyde resins, which are used as wood adhesives for plywood, particleboard, oriented-strand board, medium-density fibreboard and other reconstituted or engineered wood products. In recent years, there has been significant growth in the demand for formaldehyde as a raw material for engineering plastics. Formaldehyde is also used in the manufacture of a variety of other products, including elastomers, paints, building products, foams, polyurethane and automotive products.

¹ "Octane" is used in broad terms to denote the 'octane number' specification commonly associated with gasoline

² An "oxygenate" contains oxygen and improves the combustion of gasoline in engines, thus reducing emissions

Methanol consumption in the production of acetic acid is approximately 55% by weight of the product. Acetic acid is a chemical intermediate employed principally in the production of vinyl acetate monomer ("VAM"), acetic anhydride, purified terephthalic acid and acetate solvents, which are used in a wide variety of products including adhesives, paper, paints, plastics, resins, solvents, pharmaceuticals and textiles. The acetic acid industry has been benefiting from increasing demand for water-based solvents produced with VAM for use in paints and adhesives due to environmental concerns associated with emissions of volatile organic compounds.

The use of formaldehyde, acetic acid and other products in the building industry means that building and construction cycles and the level of wood production, housing starts, refurbishments and consumer spending are important factors in determining the level of chemical derivative demand. Demand is also increasingly affected by automobile production, durable goods production, industrial investment and environmental and health trends, as well as new product development in the panelboard and plastic packaging industries. Historically, chemical derivative demand for methanol has been relatively unaffected by changes in methanol prices. This demand inelasticity is due to the fact that there are few cost-effective substitutes for methanol in the production of the chemical derivative products of methanol and because methanol costs typically account for only a small portion of the value of many of the end products.

As a basic chemical building block, methanol is also used in the manufacture of methylamines, methyl methacrylate and a diverse range of other chemical products, which in turn are ultimately used to make such products as adhesives, coatings, plastics, film, textiles, paint, solvent, paint remover, polyester resins and fibres, explosives, herbicides, pesticides and poultry feed additives and are also used in silicone products and as a substitute for chlorofluorocarbons in aerosol products. Methanol is also used as a de-icer and windshield washer fluid for automobiles as well as an antifreeze for pipeline dehydration.

MTBE and Fuel Demand. Methanol consumption in the production of MTBE is approximately 36% by weight of the product. The other principal component of MTBE is isobutylene. The principal uses of MTBE are as a source of octane and as an oxygenate for gasoline. Its high octane value and clean-burning properties significantly reduce hydrocarbon and carbon monoxide emissions from motor vehicles. MTBE was initially used as a source of octane when unleaded gasolines were introduced. Recent environmental concerns and legislation have shifted demand towards the use of MTBE as an oxygenate in gasoline in order to reduce the level of carbon monoxide and ozone-forming emissions. In the U.S., MTBE's oxygenate value has become the most significant factor in its use, while elsewhere, MTBE continues to be used as a source of octane, but with growing potential for its oxygenate properties.

One of the most important determinants of the future level of demand for MTBE as an oxygenate arises from the implementation of the 1990 amendments to the Clean Air Act in the U.S. (as amended, the "Clean Air Act"). The Clean Air Act requires the use of cleaner-burning oxygenated gasolines under two programs. The winter-time oxygenated fuel ("oxy-fuel") program was introduced in November 1992 and requires the use of gasoline containing 2.7% oxygen by weight to reduce carbon monoxide emissions. This program was complemented by the commencement at the beginning of 1995 of the year-round reformulated gasoline ("RFG") program which generally requires gasoline oxygen content of 2.0% by weight. The RFG program is designed to reduce ozone-forming compounds and toxic air emissions. Use of MTBE as an oxygenate requires approximately 11% and 15% MTBE by volume in gasoline to meet the 2.0% and 2.7% oxygen by weight standards, respectively.

The oxy-fuel program was initially applied in 39 U.S. cities (accounting for approximately 33% of U.S. gasoline demand) which were classified as carbon monoxide non-attainment areas. Since the introduction of the RFG program, certain cities have been able to meet the oxy-fuel program's carbon monoxide attainment standards through compliance with the RFG program. The length of the winter oxy-fuel season ranges from four months in most areas to seven months in certain areas that voluntarily extend the season.

The year-round RFG program is mandated in ten U.S. cities which are classified as extreme or severe ozone non-attainment areas. Several of these cities in carbon monoxide non-attainment areas are required to meet the higher oxy-fuel oxygen weight standards during the winter oxy-fuel season. The Clean Air Act provides that a state, through its governor, may voluntarily elect to opt-in to the RFG program in marginal non-attainment areas of the state. Several states have made this election. In April 1996, the entire state of California commenced implementation of California Phase 2 Reformulated Gasoline ("CaRFG2") which is more restrictive than federal RFG. The CaRFG2 standard may be met either by meeting the prescriptive limits which specify an oxygen content of 1.8% to 2.2% by weight or by demonstrating that emissions from a fuel formulation are equivalent to or better than those achieved using the prescriptive limits. Such fuel formulations may or may not use an oxygenate but CaRFG2 sold in severe or extreme ozone non-attainment areas (about 70% of California) must contain an oxygen content that meets the federal standard. Altogether, approximately 30% of U.S. gasoline demand is now served by oxygenated and reformulated gasolines.

The initial impact of the Clean Air Act has been to increase demand for the oxygenates required for the production of RFG. MTBE, ethanol (which is produced from corn) and other substantially similar blends of ethers and alcohols (except methanol) constitute the oxygenates approved for use under the Clean Air Act. Currently, MTBE is considered the oxygenate of choice by the refining industry, as evidenced by the industry's use of MTBE over other oxygenates due to its cost, its compatibility with the gasoline blending and distribution systems, its availability and its security of supply.

There are, however, concerns about the use of MBTE and as a consequence, there can be no assurance as to the future demand for MTBE or methanol. For more information concerning the risks associated with MTBE, please refer to pages 58 and 59 of the Management's Discussion and Analysis section in the 1998 Annual Report.

Methanol is also used in a developing market as a direct fuel source and in blends with gasoline and other applications, though currently this remains a small market segment. There have been initiatives in the U.S. relating to mandated use of alternative-fuelled or flexible-fuelled vehicles and several automobile manufacturers have developed vehicles able to operate using methanol for such purposes. Methanol is also believed to have good potential as a clean-burning peak-power generating fuel and fuel cell advancements using methanol are being developed as an alternative means of generating energy in an environmentally beneficial manner that does not use traditional combustion. Methanex is devoting resources to the advancement of new technologies, such as diesel/methanol blends, and is supporting the development of infrastructure to supply methanol for use in fuel cells.

Supply Factors

Natural gas costs account for the major portion of the operating costs of most methanol producers and are typically followed in order of importance by distribution costs and operating costs. Newer plants have generally been constructed in locations with low-cost gas, although this advantage is offset in some instances by higher distribution costs due to their distance from major markets.

There is typically a two-and-a-half to four-year lead time to plan and construct a new methanol plant and, depending on design capacity and other factors, the capital cost for a world-scale plant can exceed \$350 million. Excluding the Methanex Chile III plant, which is expected to be completed in early 1999, there are currently six new plants of significance known to Methanex to be either underway or probable before 2002. They are: QAFAC in Qatar (850,000 tonnes per year, scheduled to come on stream in the second half of 1999); NPC in Iran (660,000 tonnes per year, scheduled to come on stream in the second half of 1999); Ar Razi IV in Saudi Arabia (850,000 tonnes per year, scheduled to come on stream in the second half of 1999); Titan Methanol in Trinidad (875,000 tonnes per year, scheduled to come on stream in the second half of 1999); AMPCO in Equatorial Guinea (825,000 tonnes per year, scheduled to come on stream in 2001); and YPF in Argentina (400,000 tonnes per year, scheduled to come on stream in 2001).

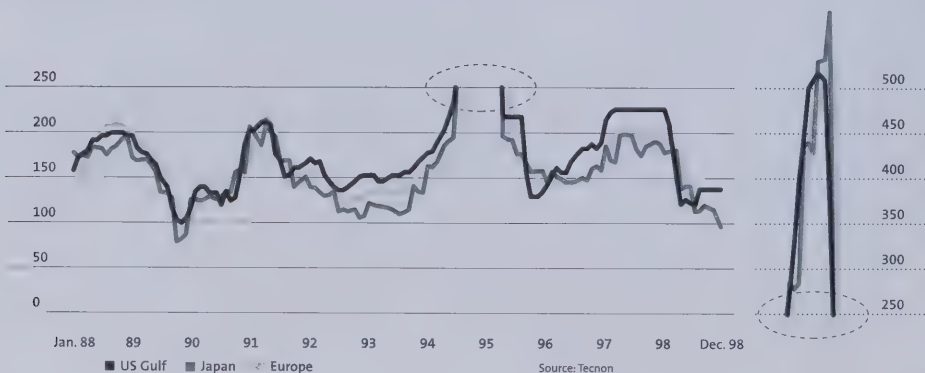
Additional methanol supply can potentially become available by re-starting methanol plants whose production has been idled, carrying out major expansions of existing plants and 'debottlenecking' existing plants to increase their ability to produce methanol. Typical of most cyclical commodity chemicals, extended periods of relatively high methanol prices encourage construction of new plants and major expansion projects, leading to an oversupply in the market.

In 1998, there was a significant excess of supply over demand and this oversupply is forecast by most industry consultants to continue at least to the end of 2000. As a result of this excess capacity, the Company expects to see the idling of higher-cost methanol production during this time.

Methanol Prices

Methanol prices have historically been characterized by volatility and have been sensitive to overall production capacity relative to demand, the availability and price of natural gas feedstock and general economic conditions. During the last 12 years, there have been four periods of high prices. The first period, from 1987 to 1989, was caused by a mismatch between supply and demand. Production capacity was closed in response to low prices immediately prior to a period when demand increased because of growth in global construction and commodity markets. The second period, in 1990-91, was an inventory-inspired demand surge driven by uncertainty over the security of Middle East supply at the time of the Gulf War. The third period started in late 1993, as a result of unplanned capacity outages and routine shutdowns which coincided with strong global economic recovery, and continued into 1994 with the increase in MTBE demand from the implementation of the RFG program under the U.S. Clean Air Act. At that time, methanol prices increased in an unprecedented manner and, after reaching a peak in late 1994, began a year-long decline as a result of additional supply coming on-stream, increased operating rates and the temporary shutdown of some MTBE facilities. After reaching a low of \$130 per tonne in November 1995, the fourth period started in early 1996 with the average U.S. Gulf Coast posted contract barge price increasing steadily through 1996 and 1997. Pricing was relatively stable throughout the second half of 1997 at approximately \$180 - \$190 per tonne. Prices dropped dramatically at the start of 1998, falling 38% in the first quarter of 1998 to around \$115 per tonne due to ample supply and lower demand as a result of economic difficulties in Far East Asian countries. Prices remained low throughout the rest of the year, with U.S. Gulf transaction prices at about \$110 - \$120 per tonne.

The following chart shows methanol contract prices (in U.S. dollars per tonne) in the world's major methanol markets:



Methanol prices in the U.S. are posted monthly by the major methanol producers, including Methanex. The majority of product is sold on a contract price basis, although discounts can be applied to the contract price. Supply contracts generally specify a minimum and maximum volume and may include a 'meet or release' clause that enables the purchaser to temporarily suspend the contract if agreement on price cannot be reached. Spot transactions also occur and are widely reported in weekly industry newsletters.

The Rotterdam contract price is the main indicator for Europe. This price is negotiated quarterly between the major customers and suppliers in the region, including Methanex. Minimum and maximum volumes are generally specified in supply contracts with European customers. As with the U.S. market, spot transactions also occur.

The third major market, Japan, has prices which are linked to the U.S. and European market prices.

As methanol is an internationally traded commodity, methanol prices in the U.S., Europe and Japan have largely tracked each other, though often with leads or lags. In times when markets diverge, product from offshore suppliers moves into the higher priced market, eventually bringing the markets back into alignment.

Production

Production Processes

Methanol is a liquid petrochemical made from feedstocks containing carbon and hydrogen. The methanol manufacturing process employed by most of the industry, including Methanex, involves heating natural gas, mixing it with steam and passing it over a nickel catalyst, where the mixture is converted into carbon monoxide, carbon dioxide and hydrogen. This reformed gas (also known as synthesis gas) is then cooled, compressed and passed over a copper-zinc catalyst to produce crude methanol. Crude methanol consists of approximately 80% methanol and 20% water by weight. In order to convert it to chemical-grade methanol, crude methanol is distilled in a series of distillation towers which remove water, higher alcohols and other impurities.

The manufacturing process employed for converting crude methanol into synthetic gasoline at the idled Motunui, New Zealand plant involves heating the crude methanol and passing it over an alumina catalyst which forms di-methyl-ether, methanol and water. This stream is then combined with recycled gas as it enters a gasoline-conversion reactor which uses a catalytic process and zeolite catalyst to produce gasoline. The gasoline then passes to a distillation section where it is separated into heavy gasoline (which is subsequently treated), light gasoline and a high vapour pressure blending component which are then blended to the requisite customer specification. Methanex has the necessary rights to the process and catalyst which are both proprietary to a subsidiary of Mobil Oil Corporation.

Operating Data and Other Information

Methanex endeavours to operate its production facilities around the world in an optimal manner, by balancing its production with customer demand throughout its global supply chain and by taking advantage of its operating flexibility to switch production to the lowest-cost plants to optimize the overall delivered cost of methanol. Scheduled shutdowns of plants are necessary to change catalysts or perform maintenance activities which cannot otherwise be completed with the plant on-line (a process commonly known as a turnaround) and these typically take between three and four weeks. Catalysts generally need to be changed every three to four years, although there is flexibility to extend catalyst life if market conditions warrant, at the expense of some production efficiency or capacity. Careful planning and scheduling is required to ensure that maintenance and repairs can be carried out during turnarounds. In addition, both scheduled and unscheduled shutdowns may also occur between turnarounds. In 1998, we prepared a comprehensive eight-year turnaround plan for all of our production facilities.

The following table sets forth certain operating data and other information for our methanol and gasoline operations at each of our existing facilities:

	YEAR BUILT	NOMINAL RATED OPERATING CAPACITY (TONNES/YEAR)	1998 PRODUCTION (TONNES)	1997 PRODUCTION (TONNES)
METHANOL				
Kitimat, Canada	1982	500,000	406,514	479,960
Medicine Hat, Canada				
Plant 1	1975	260,000	167,088	181,482
Plant 2 (idled in mid-1997, 270,000 tonnes/year capacity)	1976	—	—	93,106
Plant 3	1981	570,000	415,328	481,035
Fortier, United States ¹	1994	400,000 ²	212,921	316,294
Waitara Valley, New Zealand	1983	530,000	435,033	509,623
Motunui, New Zealand				
Distillation II	1990	500,000 ³	329,223	400,995
Distillation III	1994	700,000 ³	618,851	560,634
Distillation IV	1995	700,000 ³	405,141	433,650
Punta Arenas, Chile				
Chile I	1988	800,000	655,618	766,359
Chile II	1996	925,000	1,044,449	868,559
Total		5,885,000	4,690,166	5,091,697
GASOLINE				
Motunui, New Zealand (idled in 1997, 720,000 tonnes/year capacity ⁴)	1985	—	—	13,888

¹ Fortier is operated by Cytec Methanol Inc., Methanex's joint venture partner in FMC

² Based on Methanex's 70% interest in FMC. The actual nominal rated operating capacity is 570,000 tonnes per year

³ Assumes crude methanol from Motunui is transferred to Distillation II, Distillation III or Distillation IV for conversion into chemical-grade methanol

⁴ Assumes no crude methanol from Motunui is transferred to Distillation II, Distillation III or Distillation IV for conversion into chemical-grade methanol

New Production Facilities

In September 1996, we announced the construction of a third plant in Chile, adjacent to the existing plants. Chile III will be a stand-alone entity, although it will share infrastructure with the existing plants. The new plant has a nominal rated capacity of 975,000 tonnes of methanol per year.

The Chile III project is currently expected to be completed in early 1999 at an estimated capital cost of \$305 million.

Purchased Product

Methanex engages in additional merchant methanol marketing through offtakes of methanol produced by others. We source further additional methanol through the U.S. and European methanol spot markets.

Our annual sales volume of methanol sourced from third parties for resale in 1998 was 1,532,258 tonnes compared to 1,853,945 tonnes in 1997.

The following table sets forth certain information with respect to our marketing and supply arrangements for third-party sourced methanol:

SOURCE	METHANOL (TONNES/YEAR)		NATURE OF ARRANGEMENT
	1999 EXPECTED	1998 ACTUAL	
Fortier, United States	120,000 ¹	64,320	Methanex takes delivery of methanol from its joint venture partner's share of production from Fortier.
Caribbean Methanol Company, Trinidad	500,000 ¹	459,121 ²	Methanex has a commitment to take delivery of up to 500,000 tonnes with an option on additional volume from the Caribbean Methanol plant.
Other	— ³	1,008,817	Product purchased from other sources including the spot markets.
Total	— ³	1,532,258	

¹ These volumes are estimates only, and no assurance can be given that such volumes will actually be purchased in 1999

² Maximum production available. No further obligation to purchase additional product

³ Amount of product purchased in 1999 will be a function of market dynamics and Methanex's cost to purchase versus internal supply options

Methanol Marketing

Methanex sells methanol on a worldwide basis to every major market through an extensive marketing and distribution system with marketing offices in the U.S. (Dallas), Belgium (Brussels), Canada (Vancouver), New Zealand (Auckland) and Chile (Santiago).

We have a three-pronged marketing strategy: to develop and maintain a strong customer base in the methanol markets of North America, Latin America, Europe and Asia, as well as in other markets which are strategically located in relation to our production facilities; to form direct customer relationships rather than sell to methanol traders; and to secure and maintain long-term sales contracts with major end-users.

Methanex's ability to sell methanol from its geographically diverse, multiple production sites enhances its ability to secure major chemical and petrochemical producers as customers, for whom quality and reliability of supply are important. Our network of marketing offices, together with our storage and terminal facilities and worldwide shipping arrangements, also allow us to provide larger customers with multinational sourcing of product and other customized arrangements. As a result of our worldwide production, marketing and distribution capabilities, we are a preferred supplier in the methanol industry and the largest supplier to each of the major international methanol markets.

We augment our marketing operations by identifying surplus product from other producers and buying in the U.S. and European methanol spot markets. This enables us to service a portion of the contract and spot requirements of our customers wherever the economics are favourable. We continually evaluate our cost to serve markets and maintain internal flexibility so as to be able to quickly decide whether to make or buy methanol. Product that is purchased outside of contracted offtake arrangements provides us the opportunity to build our sales base prior to bringing on our own new capacity.

Currently, about 90% of our sales are covered by long-term or rolling one-year sales contracts. Pricing formulas under these contracts are generally determined on the basis of posted contract or other market prices at the time of shipment. None of our customers accounted for more than 10% of total revenue in 1998.

Trade in methanol is subject to duty in a number of jurisdictions and is paid for by third parties except in the case of methanol sold into the European Community from Chile, in respect of which we incur a duty of 6.51%. Methanol produced in Chile can currently be sold in the U.S. without duty. (See the “Foreign Operations and Government Regulation” section for more information.) Accordingly, Methanex augments its supply to that market from Chile. Methanol produced by Methanex in New Zealand is sold in Japan, Korea, Taiwan, Australia and other Asian and Middle Eastern countries. Methanol from Canada is sold in the U.S. and Japan where it is exempt from duties. Methanol produced in the U.S. is sold domestically.

Methanol Distribution and Logistics

Due to the locations of our plants in New Zealand and Chile, the cost of methanol distribution represents a significant portion of total costs and is important to our overall profitability. Kitimat is well positioned on the great-circle routes for shipping methanol to the Asian markets and is the lowest-cost methanol supply point for serving the California and Pacific Northwest markets. The Medicine Hat facility positions us as a low-cost supplier to the Canadian and U.S. Midwest methanol markets. Methanol from Fortier is sold to local customers.

Methanol is pumped from Methanex’s coastal plants by pipeline to adjacent deep-water ports for shipping. We manage a fleet of time-chartered vessels to ship this methanol. In order to retain optimal flexibility in the management of the fleet, we have entered into a variety of short- to long-term time-charters covering vessels with a range of capacity. We use smaller vessels capable of entering into restricted ports to deliver directly to customers. Larger vessels are used as key elements in our supply chain to move product from our production facilities to key storage facilities located in major ports. We also lease storage and terminal facilities in the U.S., Canada, Europe and Asia. In North America and Europe, barge, rail and, to a lesser extent, truck transport are also used in our delivery system.

Gasoline

The Motunui plant in New Zealand is capable of producing 720,000 tonnes of unleaded gasoline, a rate of 17,700 barrels per operating day, assuming all of Motunui’s crude methanol is converted into gasoline instead of chemical-grade methanol. High demand for methanol and the consumption profile and optimization of gas reserves led, in 1997, to the cessation of gasoline production for an indeterminate period.

Crude oil prices are the major determinant of the price received by Methanex for its gasoline. Another significant factor is the price of gasoline in Singapore (which is the reference price for the Asia-Pacific market).

Natural Gas Supply

General

Natural gas is the principal feedstock for methanol and accounts for a significant portion of its total production costs. Accordingly, our profitability depends in large part on both the security of supply and the price of gas. Part of our long-term strategy has been to secure continuity of gas supply at favourable prices through a combination of long-term contracts and activity in the open market. Since we are able to deliver methanol to our customers from a number of production facilities located throughout the world, dependency on any one source of gas as well as the impact of gas market conditions in any one production region is diminished.

If, for any reason, we are unable to obtain sufficient natural gas for any of our plants on commercially acceptable terms, we could be forced to curtail production or close such plants.

To protect against North American short-term natural gas price volatility, we, from time to time, enter into both physical and financial contracts which fix the price of natural gas.

Canada

Methanex sources natural gas for its Kitimat plant from the fields in northeastern British Columbia and is the largest industrial purchaser of gas in the province. Substantial volumes of gas are available from British Columbia producers, a situation that is expected to continue for the foreseeable future.

Most of the gas for the Kitimat plant is purchased directly from producers or other marketers under index-priced contracts entered into annually, and the balance is acquired on the spot market. Firm gas requirements are purchased to match firm transportation agreements and long-term plant operating plans. British Columbia gas prices are set in an intensely competitive market and can fluctuate widely. Wellhead prices from British Columbia producers historically have been among the lowest in North America due to surplus capacity and the distance to export markets in the U.S. However, due to more Alberta supply flowing to North American markets through increased ex-Alberta pipeline export capacity, and BC supply flowing into Alberta, BC gas pricing is becoming highly correlated to Alberta pricing. As Alberta prices have risen due to shrinking differentials to U.S. gas, so have BC prices. This trend is expected to continue into the future if further Alberta-U.S. pipelines are built such as the Alliance Project scheduled for completion in late 2000.

Natural gas purchased for Kitimat is transported through pipeline transmission systems operated by Westcoast Energy Inc. ("Westcoast") and its affiliate, Pacific Northern Gas Ltd. ("PNG"). During 1998, the majority of PNG's total volume in its pipeline system, which extends from Kitimat to Westcoast's main transmission line, represented gas delivered to Methanex's facilities. PNG and Westcoast are each regulated public utilities whose tolls, rates and tariffs for processing and transporting gas are approved and set by government agencies through a public hearing process. Methanex's transportation service agreements provide for delivery of most of its gas requirements on a firm basis with the remainder on an interruptible basis. Transportation tolls represent approximately 35% of the delivered cost of gas to the Kitimat facility. The delivered cost of gas varies with quantities purchased and Methanex is obliged to pay for certain minimum annual pipeline charges.

Methanex sources its natural gas for its Medicine Hat facilities from Alberta fields which offer substantial volumes of available gas. Natural gas for Medicine Hat is purchased from a number of suppliers under a mix of contracts, with fixed, annually adjusted and index-related prices. Small quantities are also purchased on the daily spot market to balance production. Alberta gas prices are set in an intensely competitive market and can fluctuate widely.

United States

Transportation of natural gas to the Fortier site is conducted under a transportation contract with transportation costs determined annually. The transportation contracts are matched in quantity to physical gas deliveries. Methanex purchases its physical supply from a combination of marketers and producers. Transactions are usually one month long with pricing set by monthly indexes. Methanex takes delivery of gas at Henry Hub (Louisiana) and a point west of there. Due to abundant offshore gas supplies providing liquidity at Henry Hub, Methanex believes there to be ample supply of gas for the Fortier facility. However, as Henry Hub is a national price reference point, the market is intensely competitive and prices can fluctuate widely.

New Zealand

Natural gas for the Waitara Valley and Motunui plants is sourced from the Maui and Kapuni fields, which currently account for approximately 83% and 11%, respectively, of New Zealand's total annual production of natural gas. The Maui field is a relatively deep-water offshore field located approximately 35 kilometres off the west coast of the North Island of New Zealand. On an annual basis, it provides approximately 80% of the gas used at Waitara Valley and Motunui. Kapuni is an on-shore field located on the North Island. The gas from the Kapuni field contains a higher carbon dioxide content than the gas from the Maui field. While this quality makes the Kapuni gas unsuitable for most other conventional uses without additional treatment, the addition of carbon dioxide-rich Kapuni gas to the principal Maui gas feedstock, under certain operating conditions, improves the efficiency of methanol production at Waitara Valley and Motunui.

Methanex has the right to purchase natural gas from the Maui field under contracts with take-or-pay obligations which terminate in 2003 and 2005. Any contract quantities of gas paid for but not taken in any year generally may be taken in any subsequent year until 2006 without further payment once the contract quantity for that year has been taken. The price for gas under these contracts is based upon a fixed New Zealand dollar price which was established in 1973, adjusted annually upward or downward by a factor which is based on, but in all cases is less than, a specified New Zealand inflation rate index for the previous year.

The contractual supplier to Methanex of natural gas from the Kapuni field purchases the gas from the owners of Kapuni. Methanex is obligated to purchase, and the supplier is obligated to supply, a specified annual quantity of natural gas through 2003. This gas must be sourced from the Maui field if gas from the Kapuni field is not available. Methanex also has a contract with this supplier for the purchase of additional Kapuni gas until July 1999, which may be renewed by Methanex for an additional five-year period so long as there are sufficient supplies of Kapuni gas available. The price for gas under these contracts is essentially equivalent to the purchase price under the Maui gas contracts, plus certain additional inflation-adjusted fixed amounts.

If the New Zealand plants were operated continuously at capacity, the contractual natural gas entitlements would be consumed earlier than the expiry of the contracts. A reduction in the recovery of natural gas from the reserves could potentially reduce the amount of gas available to meet our contractual entitlements. Until recently the prospects for additional gas to service these plants appeared limited, and in 1996 Methanex made a decision to focus methanol production at the Motunui site and to idle the Waitara Valley plant beginning in 1998. This decision resulted in Methanex writing down the carrying value of the Waitara Valley plant. In 1997, the likelihood of purchasing additional gas improved significantly. A memorandum of understanding was entered into with Fletcher Challenge Energy Ltd. to attempt to secure additional large volumes of natural gas to operate the plants for the longer term and Methanex decided to continue operating the Waitara Valley plant. During 1998 Methanex purchased a number of small parcels of natural gas.

There can be no assurance that Methanex will be able to secure additional gas on commercially acceptable terms.

Chile

Natural gas for the Chile I plant is supplied by Empresa Nacional del Petroleo de Chile ("ENAP") under a contract which runs through 2008. ENAP is a Chilean state-owned energy company which has monopoly rights over all oil and natural gas in Chile. Natural gas for the Chile II plant is supplied, 70% by sellers in Argentina and 30% by ENAP, under contracts that run through 2016. Under the terms of the contracts, the sellers are obligated to supply, and Methanex is obligated to take or pay for, a specified annual quantity of natural gas. Methanex also has an option to purchase up to an additional specified amount each year. Any contract quantities of natural gas paid for but not taken by Methanex in any calendar quarter generally may be taken in any subsequent quarter without further payment once the contract quantity for that quarter has been taken.

Natural gas for the Chile III facility will be supplied under 20-year take-or-pay contracts entered into with both Argentine suppliers and with ENAP for gas from Chile. The gas will flow through a new delivery infrastructure which is being constructed and consists of approximately 111 kilometres of pipeline looping.

The contractual purchase price of natural gas for all three plants is based on a minimum U.S. dollar price adjusted by a formula related to prevailing methanol prices.

The Chilean facilities are located close to other natural gas reserves in Chile and Argentina which Methanex believes it could access on commercially acceptable terms after the expiration or early termination of the ENAP and Argentine gas supply contracts.

Foreign Operations and Government Regulation

General

Methanex's operations in Canada, the U.S., New Zealand, Chile, Europe and elsewhere are affected by political developments and by federal, provincial, state and other local laws and regulations. To date, we have been able to substantially comply in all material respects with governmental requirements without incurring significant costs.

We are subject to risks inherent in foreign operations, including loss of revenue, property and equipment as a result of hazards such as expropriation, nationalization, war, insurrection and other political risks; risks of increases in duties, taxes and governmental royalties and renegotiation of contracts with governmental entities; as well as changes in laws and policies governing operations of foreign-based companies.

In addition, because the Company derives a substantial portion of its revenues from production and sales by subsidiaries outside of Canada, the payment of dividends or the making of other cash payments or advances by its subsidiaries to the Company may be subject to restrictions or exchange controls on the transfer of funds in or out of the respective countries or result in the imposition of taxes on such payments or advances. Methanex has organized its foreign operations in part based on certain assumptions about various tax laws (including capital gains and withholding tax), foreign currency exchange and capital repatriation laws and other relevant laws of a variety of foreign jurisdictions. While Methanex believes that such assumptions are correct, there can be no assurance that foreign taxing or other authorities will reach the same conclusion. Further, if such foreign jurisdictions were to change or modify such laws, Methanex may suffer adverse tax and financial consequences.

Trade in methanol is subject to duty in a number of jurisdictions and is paid by third parties except in the case of methanol that we sell into the European Community from Chile, where we currently incur a duty of 6.51%. Although we do not currently pay any duties in any other major market to which we export product, there can be no assurance that such duties will not be levied in the future or, in such event, that we would be able to mitigate the impact on our business of such duties through techniques such as physical swaps of methanol which we have used to minimize the impact of duties in the past. Under the U.S. General Systems of Preferences, methanol may be imported into the U.S. from Chile to a maximum value of \$90 million for the year ending June 1999 without a duty of 13.25% being imposed. To date, our imports to the U.S. from Chile have not incurred duty. This preference has been renewed by the U.S. annually for the last several years.

For discussion of our currency hedging activities refer to Management's Discussion and Analysis.

New Zealand

The New Zealand Government imposes a levy on the producers of gas in New Zealand. This levy applies to gas from the Maui and Kapuni fields at the fixed rate of NZ\$ 0.45 per gigajoule. In line with gas industry practice, Methanex's New Zealand gas supply contracts specify that an amount equal to the levy is to be paid by Methanex in addition to the base contract purchase price of gas. Accordingly, if the government were to change the amount of the levy, this would have a direct effect on the gas costs incurred by Methanex.

The New Zealand Government also has the power to impose constraints on demand, manufacturing, export and distribution of petroleum products (including gasoline and methanol produced by Methanex). This law gives the government powers to deal with a petroleum supply shortage or strategic need upon a basis similar to laws enacted in a number of countries during the oil shortages of the 1970s and early 1980s. Accordingly, the government's powers to intervene in the oil and gas industry are broad and override contractual and other private sector arrangements.

New Zealand enacted legislation in 1986 to safeguard claims by Maori tribes (the indigenous people of New Zealand) against lands previously owned by state-owned enterprises and subsequently privatized. The land on which certain parts of the infrastructure for the Waitara Valley and Motunui plants are located (for example, a tank farm for storing gasoline and various pipelines and pipeline valve and mixing stations) are subject to this legislation. There is a possibility that the tribunal which deals with Maori land claims could recommend the return of such land to Maori ownership. The New Zealand Government would be required to comply with such a recommendation, subject to payment of compensation to the affected owner. Methanex believes that, subject to receiving adequate compensation, such a forced divestment would not likely have a material adverse effect on its operations or financial condition. The land upon which the Waitara Valley and Motunui plants are located and the surrounding buffer zones of farmland owned by Methanex are not subject to such forced divestment procedures.

Methanex is not subject to any exchange control or other governmental restrictions relating to the movement of money into or out of New Zealand.

Chile

Methanex Chile Limited ("Methanex Chile") is an indirectly wholly owned subsidiary of the Company and owns the existing Chile I and Chile II plants as well as the Chile III plant under construction. Chilean foreign investment regulations provide certain additional benefits and guarantees to companies which enter into a foreign investment contract ("DL 600 Contract") with the Government of Chile. Methanex Chile has entered into three substantially identical DL 600 Contracts, one for each of the two existing plants and another for the third plant under construction.

Under the DL 600 Contracts, Methanex Chile is authorized to remit from Chile in U.S. dollars or any other freely convertible currency all or part of its profits and its equity subject to certain conditions. Methanex Chile also has the right under the DL 600 Contracts to pay income taxes under the general tax regime at a fixed rate of 42% for twenty years. Alternatively, Methanex Chile can elect to pay income tax at the general applicable rates (currently 35%) for domestic Chilean companies. Once this election is made it is irrevocable and Methanex Chile would become subject to the regular tax system. Methanex Chile has not yet made such election.

The DL 600 Contracts provide that they cannot be amended or terminated except by written agreement signed by both Methanex Chile and the Chilean state.

Environmental Matters

Canada, the U.S., New Zealand and Chile all have laws governing the environment and the sustainable management of natural resources as well as the handling, storage, transportation and disposal of hazardous or waste materials. We are also subject to laws governing the import, export, use, discharge, storage, disposal and transportation of toxic substances. The substances we use and produce are subject to regulation under various health, safety and environmental laws. Non-compliance with these laws and regulations may give rise to work orders, fines, injunctions, civil liability and criminal sanctions.

As a result of periodic external and internal audits, we believe that we are currently in substantial compliance in all material respects with all existing environmental, health and safety laws and regulations to which our operations are subject. Laws and regulations protecting the environment have become more stringent in recent years and may, in certain circumstances, impose absolute liability rendering a person liable for environmental damage without regard to negligence or fault on the part of such person. Such laws and regulations may expose us to liability for the conduct of, or conditions caused by, others, or for acts that were contractually required of us and which were in compliance with all applicable laws at the time such acts were performed. To date, environmental laws and regulations have not had a material adverse effect on Methanex. However, the ongoing operations of petrochemical manufacturing plants entail risks in this area and there can be no assurance that material costs or liabilities will not be incurred.

As a member of the Canadian Chemical Producers' Association, we are committed to Responsible Care. Accordingly, policies, systems and procedures have been established within Methanex to promote and encourage the responsible development, introduction, manufacture, transportation, storage, handling, distribution, use and ultimate disposal of chemicals and chemical products so as to minimize adverse effects on human health and well-being and on the environment.

Insurance

A substantial portion of our revenues are derived from the operation of our plants. Under certain conditions, prolonged shutdowns of plants due to unforeseen equipment breakdowns, interruptions in the supply of natural gas, power failures or any other reason, including any event of *force majeure*, could materially adversely affect our revenues and operating income. Our business is subject to the normal hazards of methanol production operations that could result in damage to our plants. Methanex maintains insurance, including business interruption insurance, that it considers to be adequate under the circumstances. However, there can be no assurance that we will not incur losses beyond the limits of, or outside the coverage of, such insurance. From time to time, various types of insurance for companies in the chemical and petrochemical industries have been very expensive or, in some cases, unavailable. There can be no assurance that in the future we will be able to maintain existing coverage or that premiums will not increase substantially.

Employees

As of December 31, 1998, we had 871 employees. In addition, we employed 143 contractors at the Chile facility, primarily at the Chile III construction site. The Methanex workforce is non-union except for 30 employees at the New Zealand facilities who are union members covered by site-specific collective bargaining agreements.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Five-Year Summary

(MILLIONS OF U.S. DOLLARS
EXCEPT PER SHARE AMOUNTS)

YEARS ENDED DECEMBER 31	1998	1997	1996	1995	1994
STATEMENTS OF INCOME DATA					
Revenue	\$ 721	\$ 1,299	\$ 946	\$ 1,249	\$ 1,488
Net income (loss)	(68)	202	(8)	192	435
Per share net income (loss)	(0.39)	1.10	(0.04)	1.01	2.20
BALANCE SHEET DATA					
Total assets	1,799	1,973	1,771	1,749	1,688
Long-term debt	399	398	398	421	408

Quarterly Summary (unaudited)

(MILLIONS OF U.S. DOLLARS
EXCEPT PER SHARE AMOUNTS)

	1998				1997			
	DEC. 31	THREE MONTHS ENDED SEPT. 30	JUNE 30	MAR. 31	DEC. 31	THREE MONTHS ENDED SEPT. 30	JUNE 30	MAR. 31
Revenue	162	179	151	229	322	308	337	332
Net income (loss)	(22)	(20)	(28)	2	36	50	65	51
Per share net income (loss)	(0.12)	(0.12)	(0.16)	0.01	0.20	0.27	0.34	0.27

Segmented Information

(MILLIONS OF U.S. DOLLARS)	CANADA	UNITED STATES	JAPAN	OTHER ASIA	EUROPE	LATIN AMERICA	TOTAL
REVENUE							
1998	44.0	223.9	118.6	132.7	154.6	47.1	720.9
1997	51.9	375.4	205.8	245.9	274.4	146.0	1,299.4
(MILLIONS OF U.S. DOLLARS)							
			CANADA	UNITED STATES	NEW ZEALAND	CHILE	TOTAL
PROPERTY, PLANT & EQUIPMENT							
1998			187.0	118.7	217.6	617.6	1,140.8
1997			189.3	121.5	244.1	509.7	1,064.6

DIVIDENDS

The indenture governing Methanex's U.S. debt securities imposes certain limitations on the declaration or payment of cash dividends on the Common Shares of the Company or other shareholders' distributions to an amount which, after giving effect to such payment or distribution, would cause the Company's consolidated shareholders' equity to be less than \$850 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis which appears on pages 51 to 60 of our Annual Report is incorporated herein by reference.

MARKET FOR SECURITIES

The Common Shares of the Company are listed on the Toronto Stock Exchange and the Montreal Exchange in Canada (trading symbol: MX) and are quoted through the NASDAQ Stock Market in the U.S. (trading symbol: MEOH).

ADDITIONAL INFORMATION

The Company will provide to any person, upon request to the Corporate Secretary of the Company:

- (a) when the securities of the Company are in the course of a distribution pursuant to a short-form prospectus or a preliminary short-form prospectus has been filed in respect of a distribution of its securities,
 - (i) one copy of this Annual Information Form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in this Annual Information Form;
 - (ii) one copy of the comparative financial statements of the Company for the year ended December 31, 1998 together with the accompanying report of the auditors and one copy of any interim financial statements of the Company subsequent to the financial statements for the year ended December 31, 1998;
 - (iii) one copy of the Management Proxy Circular of the Company dated March 24, 1999 for the Annual General Meeting of the Company to be held on May 20, 1999; and
 - (iv) one copy of any other documents that are incorporated by reference into the preliminary short-form prospectus or the short-form prospectus and are not required to be provided under (i) to (iii) above; or
- (b) at any other time, one copy of any of the documents referred to in (a)(i), (ii) and (iii) above, provided that the Company may require the payment of a reasonable charge if the request is made by a person who is not a securityholder of the Company.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Management Proxy Circular dated March 24, 1999 for the Annual General Meeting of the Company to be held on May 20, 1999. Additional financial information is provided in the consolidated financial statements of the Company for the year ended December 31, 1998. Copies of these documents, as indicated above, may be obtained upon request from:

W. James Emmerton
Vice President, General Counsel and Corporate Secretary

Methanex Corporation
1800 Waterfront Centre
200 Burrard Street
Vancouver, British Columbia V6C 3M1

Telephone: 604 661 2600
Facsimile: 604 661 2676
E-mail: jemmerto@methanex.com

DIRECTORS AND OFFICERS

The following sets forth the names and municipalities of residence of the directors and officers of the Company, the offices held by them in the Company, their current principal occupations, any other principal occupations during the last five years and, in the case of the directors, the month and year in which they became directors:

NAME AND MUNICIPALITY OF RESIDENCE	OFFICE	PRINCIPAL OCCUPATIONS AND POSITIONS DURING LAST FIVE YEARS	DIRECTOR SINCE
③ Boivin, Daniel W. Calgary, Alberta	Director	Senior Vice President and President Olefins/Polyolefins of NOVA ¹ ; prior thereto Senior Vice President, NOVA and President and Chief Operating Officer of NOVA since September 1994; prior thereto Senior Vice President Olefins/Polyolefins business of NOVA since January 1994.	May 1998
Choquette, Pierre Torrance, Ontario	President, Chief Executive Officer and Director	President and Chief Executive Officer of the Company since October 1994; prior thereto held various senior executive positions with NOVA.	October 1994
② Findlay, Robert B. ③ West Vancouver, British Columbia	Director	Corporate Director. Prior to October 1997 was President and Chief Executive Officer of MacMillan Bloedel Limited.	July 1994
① Gregson, Brian D. ③ Vancouver, British Columbia	Director	Corporate Director. Prior to July 1995 was Chairman of Barbican Properties Inc.	July 1994
① Lawrence, R.J. (Jack) ② Toronto, Ontario	Director	Chairman of Lawrence & Company Inc. since November 1995; prior thereto held various offices with Nesbitt Burns Inc. and its predecessors, most recently as Vice-Chairman of Nesbitt Burns Inc.	January 1995
② Lipton, Jeffrey M. ③ Calgary, Alberta	Chairman of the Board and Director	President and Chief Executive Officer of NOVA since July 3, 1998; prior thereto President of NOVA since September 1994; prior thereto Senior Vice President and Chief Financial Officer of NOVA; prior to February 1994 was Senior Vice President of Novacor Chemicals Inc.	February 1994
② Morton, David ③ Westmount, Quebec	Director	Corporate Director. Chairman of Alcan Aluminium Limited from 1989 to 1995.	January 1995
① Poole, A. Terence Calgary, Alberta	Director	Executive Vice President, Finance and Strategy of NOVA since July 3, 1998; prior thereto Senior Vice President and Chief Financial Officer of NOVA since 1994.	February 1994
① Sweeney, Graham D. ② Sarnia, Ontario ③	Director	Corporate Director. Prior to October 1995 was President and Chief Executive Officer of Dow Chemical Canada Inc.	July 1994

① Member of the Audit, Finance and Risk Committee

② Member of the Human Resources and Corporate Governance Committee

③ Member of the Responsible Care and Public Policy Committee

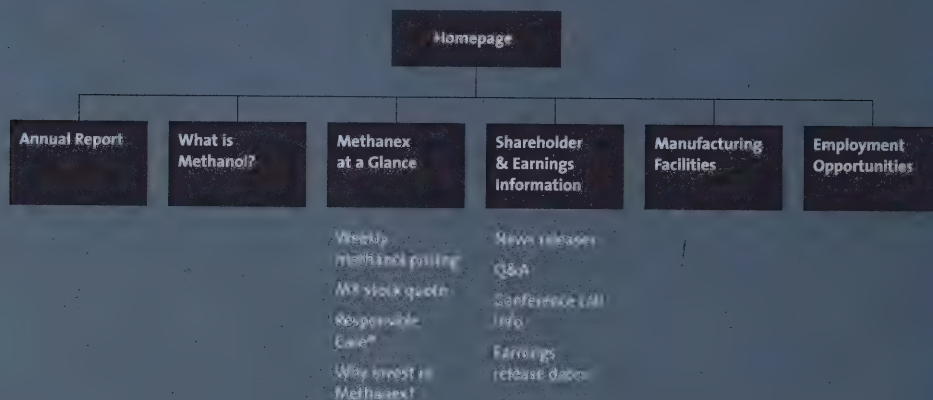
¹ NOVA means NOVA Chemicals Corporation or any of its predecessor companies

Aitken, Bruce Auckland, New Zealand	Vice President, Asia-Pacific	Vice President, Asia-Pacific of the Company and Managing Director of Methanex New Zealand Limited since December 1997; prior thereto Marketing Director of Methanex New Zealand Limited since December 1995; prior thereto Vice President, Corporate Development of the Company.
Britton, Ronald W. North Vancouver, British Columbia	Vice President, North America and Global Technology	Vice President North America and Global Technology of the Company since May 1998; prior thereto Vice President, North America of the Company since June 1995; prior thereto held various positions with Bayer A.G.
Cole, Allan S. West Vancouver, British Columbia	Vice President, Finance and Chief Financial Officer	Vice President, Finance and Chief Financial Officer of the Company since August 1997; prior thereto Senior Vice President and Chief Financial Officer of St. Marys Cement Corporation.
Emmertson, W. James South Surrey, British Columbia	Vice President, General Counsel and Corporate Secretary	Vice President, General Counsel and Corporate Secretary of the Company since March 1997; prior thereto a Partner of Just Solutions Mediation & Arbitration; prior to December 1995, Vice President, General Counsel of John Labatt Limited.
Gordon, John K. Vancouver, British Columbia	Vice President, Corporate Resources	Vice President, Corporate Resources of the Company since September 1998; prior thereto Vice President, Human Resources and Corporate Affairs of the Company since August 1995; prior thereto held similar positions with Bramalea Inc. and Lac Minerals Ltd.
Krause, Rodolfo L. Santiago, Chile	Vice President, Latin America and Global Manufacturing Excellence	Vice President, Latin America and Global Manufacturing Excellence of the Company and General Manager, Methanex Chile since May 1998; prior thereto Vice President, Latin America of the Company and General Manager, Methanex Chile Limited.
Milner, Randall M. Vancouver, British Columbia	Corporate Counsel and Assistant Corporate Secretary	Corporate Counsel and Assistant Corporate Secretary of the Company since March 1998; prior thereto Corporate Counsel of the Company since October 1995; prior thereto Legal Counsel with Chemetics International Company Ltd.
Williams, Fred T. Dallas, Texas	Vice President, Marketing	Vice President, Marketing since April 1998; prior thereto Director North American Marketing and Logistics of the Company since July 1995; prior thereto held various company positions with Enron Corporation.
Wilson, Michael M. Bragg Creek, Alberta	Executive Vice President, Global Marketing and Corporate Development	Executive Vice President, Global Marketing and Corporate Development since September 1998; prior thereto Executive Vice President, Global Marketing and Logistics of the Company since June 1994; prior thereto held various positions with Dow Chemical Company Inc.

As at December 31, 1998, the directors and senior officers of the Company owned, directly or indirectly, or exercised control of or direction over, less than 1% of the outstanding Common Shares of the Company.

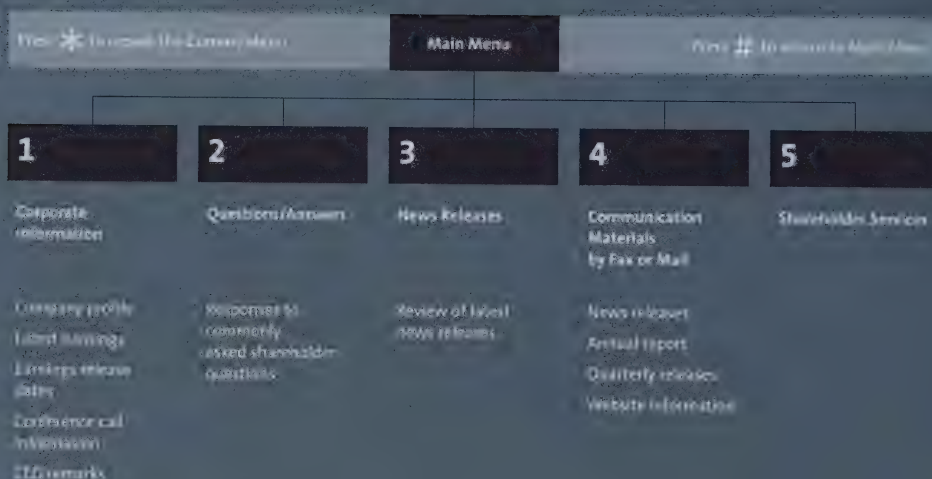
WEBSITE

www.methanex.com



SHAREHOLDER DIRECT

1 800 646 3643



Dear Stakeholders

In reading through this report, you've seen that 1998 was a difficult year for us — methanol pricing was down almost 40% and our sales levels were measurably lower in the first half of the year.

But methanol is a cyclical commodity business and our financial performance in 1998 was not unique. The average stock performance of eight of our peer companies was a 40% decline from 52-week highs — much the same as ours — making us quite representative of the commodity chemicals sector. Other commodities such as metals and forest products returned similar stock performances.

While our industry fundamentals seem to cause many people to 'discount' our company, we encourage you to look more closely and then perhaps you'll share our enthusiasm for the results we've achieved. That's what our theme section is all about this year. It's about the things we can control, about making progress on our strategy, about delivering results. It's about our abilities.

MTBE was perhaps the key issue for our investors in 1998, and this is reiterated by the number of questions in the Q&A section of this report and the extent of the MTBE discussion in the MD&A and AIF. Unfortunately, at the time of writing this report the outcome of the MTBE issue remains uncertain — it currently seems destined to be decided by politics.

The potential for methanol demand growth from fuel cells has attracted growing interest, providing some balance to the short-term views. Again, this interest is reflected in the Q&A. And while our current stock price does not reflect this 'opportunity,' it's interesting to note that institutional investors with a longer-term investment horizon represent a high proportion of our stock ownership. This aligns well with our long-term value creation strategy and the cyclical nature of our business.

For us, 'value creation' means the difference between our cost of capital (% WACC) and our return on capital (% ROCE), applied to our total capital employed (\$). (See also page ii of the factbook at the end of this report.) Our target is to achieve 14% ROCE over the full methanol cycle, and we estimate our WACC to be approximately 11%. Since 1994, we have generated almost \$300 million of value, even including our 1998 results.

In this year's report, we have expanded our Responsible Care coverage and included performance measures. We are keen to extend an understanding of Responsible Care to the capital markets because we believe it's important and we also believe our leadership will provide us further competitive advantage.

And last, but certainly not least, we are very conscious that the consumer/investor linkage may be difficult because neither our name, Methanex, nor our product, methanol, appear on store shelves. We hope you can make the linkage through the 'methanol in our lives' content in the report and the 'dichotomy of chemicals' discussion at the end of the Responsible Care section. Methanol does contribute to all aspects of our modern lives.

For further information on Methanex, please see page 100 which includes details of our website and our 1-800 number. Alternatively, you can contact us by e-mail, telephone, fax or mail at the numbers and addresses on the back cover of this report.

We hope this report has met your needs, and we would appreciate your feedback.

Sincerely,



Michael Macdonald

Director,
Investor Relations &
Corporate Communications

Methanex Financial Highlights

Data in this Factbook can be downloaded from our website in an Excel® spreadsheet format

Income and Operating Cash Flows

(thousands \$US)

	1998	Q4	Q3	Q2	Q1	1997	1996	1995	1994	1993
REVENUE	720,879	162,385	178,299	151,143	229,052	1,299,380	945,707	1,249,179	1,487,892	533,436
Cost of sales and operating expenses	(703,881)	(165,908)	(174,019)	(160,348)	(203,606)	(930,850)	(734,122)	(848,256)	(876,175)	(439,488)
Depreciation and amortization	(106,812)	(25,270)	(30,210)	(26,444)	(24,888)	(117,057)	(114,055)	(97,575)	(74,561)	(57,793)
Interest expense	(21,680)	(4,329)	(5,163)	(5,831)	(6,357)	(32,423)	(20,361)	(32,090)	(30,476)	(23,712)
Interest and other income	25,547	4,434	5,841	7,171	8,101	34,153	22,993	22,257	5,333	2,945
Write-down of property, plant and equipment	—	—	—	—	—	—	(105,000)	—	—	—
Other, net	—	—	—	—	—	—	—	(39,058)	—	—
Income and other taxes	17,499	6,893	4,500	6,194	(88)	(51,215)	(3,014)	(62,719)	(77,386)	(5,461)
NET INCOME (LOSS)	(68,448)	(21,795)	(20,752)	(28,115)	2,214	201,988	(7,852)	191,738	434,627	9,927
Add (deduct):										
Depreciation and amortization	106,812	25,270	30,210	26,444	24,888	117,057	114,055	97,575	74,561	57,793
Write-down of property, plant and equipment	—	—	—	—	—	—	105,000	—	—	—
Deferred income taxes	(1,389)	974	(1,038)	(3,260)	1,935	40,818	4,188	26,952	30,912	3,328
Debt retirement cost	—	—	—	—	—	—	—	36,543	—	—
Other	12,369	5,609	2,615	2,367	1,778	10,665	8,460	9,647	4,668	(340)
CASH FLOW FROM OPERATIONS¹	49,344	10,058	11,035	(2,564)	30,815	370,528	223,851	362,455	544,768	70,708
Increase (decrease) in cash position	(204,618)	(44,839)	(62,544)	(43,869)	(53,366)	108,424	(15,753)	207,420	106,919	(9,572)
EBIT²	(64,267)					285,626	120,523	323,090	542,489	39,100
EBITDA²	42,545					402,683	234,578	420,665	617,050	96,893

¹ Before changes in non-cash working capital

² Includes interest income. Excludes write-down of property, plant, and equipment (1996) and debt retirement costs (1995)

Consolidated Balance Sheets

(thousands \$US)

	1998	Q4	Q3	Q2	Q1	1997	1996	1995	1994	1993
ASSETS										
Cash and cash equivalents	287,698	287,698	332,537	395,081	438,950	492,316	383,892	399,645	192,225	85,306
Receivables	202,276	202,276	205,865	172,681	198,998	245,844	207,847	173,045	339,006	84,825
Inventories	70,748	70,748	62,691	65,587	82,916	89,272	68,129	64,223	108,143	39,242
Prepaid expenses	9,462	9,462	14,519	13,822	9,119	12,364	9,237	13,351	12,519	12,054
Current assets	570,184	570,184	615,612	647,171	729,983	839,796	669,105	650,264	651,893	221,427
Property, plant and equipment	1,140,827	1,140,827	1,116,592	1,095,028	1,070,903	1,064,634	1,020,546	1,014,128	974,647	698,447
Other assets	88,049	88,049	99,207	105,476	87,653	68,629	81,513	84,209	61,753	49,911
TOTAL ASSETS	1,799,060	1,799,060	1,831,411	1,847,675	1,888,539	1,973,059	1,771,164	1,748,601	1,688,293	969,785
LIABILITIES AND SHAREHOLDERS' EQUITY										
Accounts payable and accrued liabilities	106,594	106,594	125,326	111,655	113,890	187,767	119,179	111,686	246,249	97,836
Current maturities on long-term debt and other long-term liabilities	9,093	9,093	5,312	5,255	5,200	5,145	4,932	24,357	9,451	32,269
Current liabilities	115,687	115,687	130,638	116,910	119,090	192,912	124,111	136,043	255,700	130,105
Long-term debt	398,722	398,722	398,662	398,602	398,541	398,481	398,241	401,331	398,350	409,069
Other long-term liabilities	50,676	50,676	62,175	61,968	61,812	62,419	64,024	29,582	2,978	—
Deferred income taxes	126,385	126,385	111,003	112,041	115,301	127,774	72,548	68,360	41,408	10,496
Total liabilities	691,470	691,470	702,478	689,521	694,744	781,586	658,924	635,316	698,436	549,670
Shareholders' equity	1,107,590	1,107,590	1,128,933	1,158,154	1,193,795	1,191,473	1,112,240	1,113,285	989,857	420,115
Total liabilities and shareholders' equity	1,799,060	1,799,060	1,831,411	1,847,675	1,888,539	1,973,059	1,771,164	1,748,601	1,688,293	969,785
Total capitalization	1,506,312	1,506,312	1,527,595	1,556,756	1,592,336	1,589,954	1,510,481	1,534,245	1,397,658	861,453

Methanex Supply Statistics

Methanol Production Data

(thousands of tonnes)

	NOMINAL CAPACITY	1998	1997	1996	1995	1994	1993
NORTH AMERICA							
Medicine Hat 1, Alberta	260	167	182	219	230	239	—
Medicine Hat 2 (idled)	270	—	93	244	215	262	—
Medicine Hat 3	570	415	481	584	528	538	—
Kitimat, British Columbia	500	407	480	436	409	498	521
Fortier, Louisiana ¹	400	213	316	248	314	100	—
Enron, Texas ²	—	—	—	11	94	135	160
	1,730	1,202	1,552	1,742	1,790	1,772	681
NEW ZEALAND							
Waitara	530	435	510	549	523	501	533
Motunui DII	500 ³	329	401	371	371	456	249
Motunui DIII	700 ³	619	560	529	430	19	—
Motunui DIV	700 ³	405	434	397	51	—	—
	2,430	1,788	1,905	1,846	1,375	976	782
CHILE							
Chile I	800	656	766	853	841	874	807
Chile II	925	1,044	869	14	—	—	—
	1,725	1,700	1,635	867	841	874	807
Total							
Gasoline Production (idled)	5,885	4,690	5,092	4,455	4,006	3,622	2,270
Nominal Capacity ⁵	720 ⁴	—	14	178	290	467	604
Methanol Equivalent Capacity Utilization ⁶	5,885	5,885	6,020	5,230	5,230	4,930	3,730
Number of Employees		80%	85%	94%	89%	95%	98%
Lost-Time Incidents		871	841	881	876	820	616
Productivity (thousands of tonnes/employee)		7 ⁷	1	5	2	1	2
Revenue (thousands/employee)		5.38	6.05	5.06	4.57	4.42	3.69
		\$827	\$1,545	\$1,073	\$1,426	\$1,815	\$866

1 Methanex's 70% share of total capacity
2 Enron no longer supplies product to Methanex as of February 12, 1996
3 Assumes crude methanol consumed to produce chemical grade methanol
4 Assumes all crude methanol consumed to produce gasoline
5 Nominal capacity figures are adjusted by the idling of the Medicine Hat 2 plant in mid-1997, and the start-up of the Fortier plant for Q4 1994
6 Capacity utilization figures incorporate both plant down-time and reductions in operating rates. All gasoline production converted to methanol equivalent basis. Excludes Enron production
7 Five LTIs sustained at plant sites and two at the corporate office

Purchased Product

(thousands of tonnes)

	1999 ESTIMATE	1998	1997	1996	1995	1994	1993
Leuna, Germany							
Fortier, Louisiana	0	0	120	323	350	380	348
Texaco, Delaware	120	64	136	67	95	33	0
CMC, Trinidad	0	0	0	62	226	165	172
Other	500	459	416	453	484	536	24
	— ¹	1,009	1,182	652	227	357	202
Total purchased product	— ¹	1,532	1,854	1,557	1,382	1,471	746

1 Amount of product purchased in 1999 will be a function of market dynamics and our cost and ability to produce versus external supply options

Simplified Process Flowchart

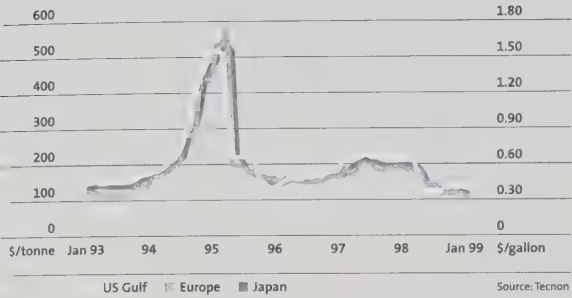


Methanol – General Information

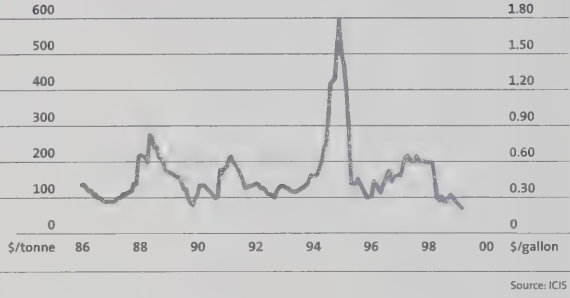
Methanol Price History

	1998		1997		1996		1995		1994		1993	
	\$/tonne	\$/gallon	\$/tonne	\$/gallon	\$/tonne	\$/gallon	\$/tonne	\$/gallon	\$/tonne	\$/gallon	\$/tonne	\$/gallon
Methanex average realized price	120	0.36	187	0.56	149	0.45	222	0.67	288	0.87	136	0.41

Regional Contract Pricing History



US Gulf Spot Price History



Methanol Uses

PRIMARY DERIVATIVES	DERIVATIVE	END USE PRODUCTS
FORMALDEHYDE	Urea Phenol 1,4-butanediol Acetal resins MDI	particleboard, medium density fibreboard (MDF) oriented-strand board (OSB), plywood PVC solvent automotive and plumbing moulding resins rigid urethane foam (insulation) and mouldings
ACETIC ACID	VAM Acetic anhydride Terephthalic acid Solvent esters Chloroacetic acid	adhesives, latex paints pharmaceuticals polyester fibre and plastic bottles paints, coatings, inks herbicides, pharmaceuticals
MTBE AND FUELS	MTBE blended with gasoline MEG (Methanol / Ethanol / Gasoline) M85 / M100	motor vehicle fuel motor vehicle fuel (Brazil) alternative motor vehicle fuels
OTHER DERIVATIVES	Methyl methacrylate Methylamines Chloromethanes Dimethyl terephthalate Direct uses	sheet for signs, windows, auto parts poultry feed additive, pesticides, biocides silicones, solvents, agricultural chemicals polyester fibres and resins (bottles, sheet) solvent, windshield wash, disinfectant

Conversion Formulas

Production Conversions (unit of methanol consumed per unit of product by weight; Source: CMAI)

Acetic Acid	0.55	Diethylene Glycol MME	0.3	Methyl Methacrylate	0.39	Triethylene Glycol MME	0.22
Carbon Tetrachloride	0.22	Dimethyl Ether (DME)	1.5	Methylene Chloride	0.41	Single Cell Protein	1.8 - 2.6
Chloroform	0.29	Formaldehyde (37%)	0.45	MTBE	0.36		
Methyl Chloride	0.68	Methyl Acrylate	0.39	Polyacetal	1.5		
DMT (non-retained)	0.38	Methylamines	1.45	Synthetic Gasoline	2.56		

Volume and Mass Conversions

1 Tonne methanol = 332.6 US Gallons = 7.92 Barrels
1 Tonne gasoline = 362 US Gallons = 8.62 Barrels
1 Barrel = 42 US Gallons
1 Gallon = 1 US Gallon or 3.785 Litres
1 Tonne = 1.1025 Short Ton
1 Short Ton = 0.907 Tonne
1 Kilogram = 2.205 Pounds
1 MSCF = 26.8 nm³
100 \$ per tonne methanol = \$0.30 per gallon methanol

Energy Conversions

1 MMBTU = 1.055 GJ
1 GJ = 0.948 MMBTU
1 MMBTU = 1 MSCF
(assuming approximate calorific value of pipeline gas = 1000 BTU/SCF or 0.039 GJ/nm³)
BTU = British Thermal Unit
GJ = Gigajoule = 10⁹ joules
MSCF = Thousand Standard Cubic Feet
nm³ = Normal Cubic Meter



Methanex Performance

Ratios

	1998	1997	1996	1995	1994	1993
VALUE						
Year-end share price (US\$)	5.06	7.93	9.00	7.31	13.00	8.00
Earnings (loss) per share (EPS) ¹	(0.39)	1.10	0.45	1.14	2.20	0.06
Cash flow per share (CFPS) ²	0.28	2.02	1.18	1.90	2.76	0.41
EBITDA per share	0.24	2.19	1.24	2.21	3.12	0.57
Book value per share	6.34	6.48	5.89	5.85	5.01	2.46
Price to earnings (P/E)	n.a.	7.22	19.88	6.43	5.91	137.38
Price to cash flow	17.91	3.93	7.60	3.84	4.71	19.29
Price to EBITDA	20.78	3.62	7.25	3.31	4.16	14.07
Price to book value	0.80	1.22	1.53	1.25	2.59	3.25
Market value per tonne produced	187	273	382	345	699	604
Production per share (US gallons)	8.99	9.65	7.83	7.05	6.18	4.41
LIQUIDITY						
Quick ratio	4.32	3.89	4.84	4.31	2.13	1.40
Current ratio	4.93	4.35	5.39	4.78	2.55	1.70
Working capital (\$000s)	454,497	646,884	544,994	514,221	396,193	91,322
PROFITABILITY						
Return on equity (ROE)	(6.0%)	17.5%	7.7%	20.4%	53.6%	2.3%
Return on capital employed (ROCE)	(2.9%)	13.2%	6.3%	15.8%	39.8%	3.0%
DEBT						
Asset coverage	4.51	4.95	4.45	4.15	4.14	2.20
EBIT interest coverage	(1.95)	8.52	3.52	9.31	15.04	1.43
EBITDA interest coverage	1.29	12.01	6.85	12.13	17.10	3.55
Debt to capitalization	26%	25%	26%	27%	29%	51%
Debt per tonne of methanol produced (\$)	85	78	89	105	113	194
Net debt (\$000s)	111,024	(93,835)	14,349	21,315	215,576	356,032

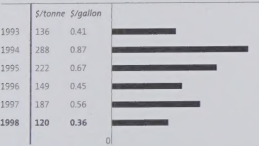
1 Excludes write-down of property, plant, and equipment (1996) and debt retirement costs (1995)

2 Operating cash flows before changes in non-cash working capital

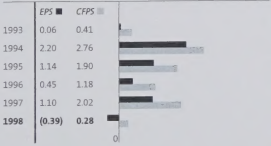
3 Includes capitalized interest

Note: All per share amounts are based on weighted average of shares outstanding

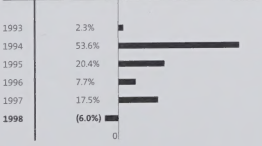
Average Realized Methanol Price



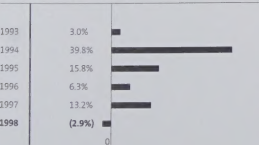
Earnings and Cash Flow per Share



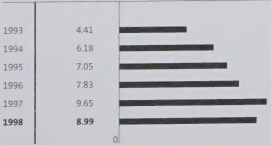
Return on Average Equity (ROE)



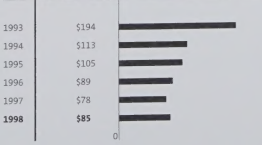
Return on Capital Employed (ROCE)



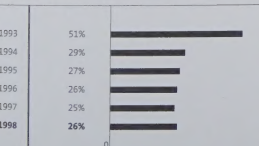
Production per Share (U.S. gallons)



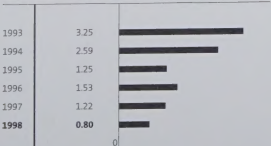
Debt per Tonne Produced



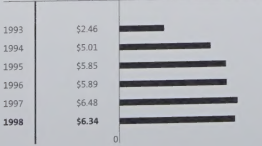
Debt/Capitalization



Price/Book Value



Book Value per Share



Definitions

Quick Ratio =	Current Assets - Inventories
	Current Liabilities
Current Ratio =	Current Assets
	Current Liabilities
ROE ¹ =	Net Income (loss)
	Average Shareholders' Equity
ROCE ² =	Operating Income (loss) before interest expense, after tax
	Average Capital Employed
Capital Employed =	Total Assets - Non-interest bearing liabilities
Asset Coverage =	Total Assets
	Long-term Debt
EBIT =	Net income (loss) before interest expense and taxes
EBIT Interest Coverage =	EBIT ³
	Interest Expense ³
EBITDA =	Net income (loss) before interest expense, taxes, depreciation and amortization
EBITDA Interest Coverage =	EBITDA ¹
	Interest Expense ¹
Debt/Capitalization =	Long-term Debt
	Total Capitalization
Total Capitalization =	Long-term Debt + Shareholders' Equity

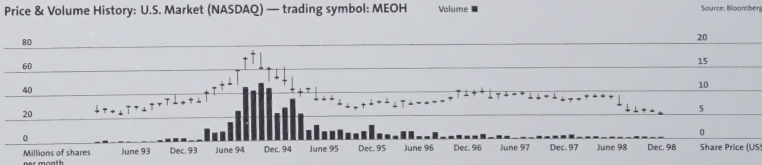
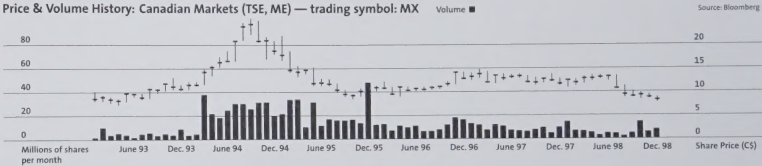
Methanex Stock Trading Data

Common Share Data

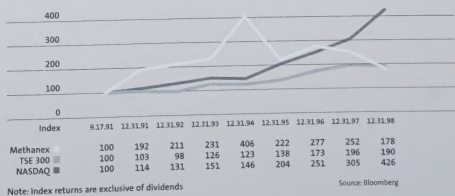
(millions of shares except where noted)

	1998	Q4	Q3	Q2	Q1	1997	1996	1995	1994	1993
Net income (loss) per share (US\$) ¹	(0.39)	(0.12)	(0.12)	(0.16)	0.01	1.10	0.45	1.14	2.20	0.06
Weighted average shares outstanding	174.7	174.7	175.0	175.5	175.6	183.8	189.0	190.3	197.5	170.5
Year-end shares outstanding	173.5	173.5	173.5	174.7	175.6	175.6	189.1	189.0	194.8	171.3
Canadian trading volume	81.4	28.2	11.9	13.4	27.9	107.8	131.0	266.1	277.2	57.7
US trading volume	15.7	3.1	3.3	3.7	5.6	21.1	43.5	154.9	266.3	13.6
Total trading volume	97.1	31.3	15.2	17.1	33.5	130.8	174.5	421.0	543.5	71.3
NOVA ownership	46.9	46.9	46.9	46.9	46.9	46.9	46.9	46.9	46.9	0
Remaining public float	126.5	126.5	126.5	127.8	128.6	126.6	142.2	142.1	147.9	171.3
Trading as a % of remaining public float	77%	25%	12%	13%	26%	102%	123%	296%	368%	42%
Average share price (US\$)	10.73	8.51	10.38	12.51	11.53	12.56	10.84	12.35	17.32	9.40
Average share price (C\$)	7.24	5.49	6.85	8.64	8.03	9.04	7.91	8.93	12.70	7.23
Closing share price (C\$)	7.65	7.65	8.75	12.70	12.45	11.35	12.45	10.00	18.25	10.38
Closing share price (US\$)	5.06	5.06	5.50	8.63	8.75	7.93	9.00	7.31	13.00	8.00
Market capitalization (000s C\$)	1,327	1,327	1,518	2,219	2,186	1,993	2,355	1,890	3,555	1,777
Market capitalization (000s US\$)	878	878	954	1,508	1,536	1,392	1,702	1,382	2,532	1,370

1 Excludes write-down of property, plant, and equipment (1996) and debt retirement costs (1995)



MX Performance Relative to TSE 300 and NASDAQ Composite



Note: Index returns are exclusive of dividends

1998 Trading Range History

	TRADING SYMBOL - MX	CANADIAN EXCHANGES			
	HIGH	LOW			VOLUME (MILLIONS)
Q1	12.90	10.60	27.9		
Q2	13.15	11.95	13.4		
Q3	13.05	8.50	11.9		
Q4	9.50	7.50	28.2		
1998	13.15	7.50	81.4		
	TRADING SYMBOL - MEOH	THE NASDAQ STOCK MARKET			
	HIGH	LOW			VOLUME (MILLIONS)
Q1	9.13	7.38	5.6		
Q2	9.25	8.06	3.7		
Q3	8.88	5.38	3.3		
Q4	6.25	4.78	3.1		
1998	9.25	4.78	15.7		

Methanex Sales & Marketing Statistics

Global Market Position

(thousands of tonnes)

SALES VOLUME BY REGION	1998	1997	1996	1995	1994	1993
North America	2,267	2,271	2,185	1,958	2,227	722
Asia-Pacific	2,100	2,368	1,945	1,609	1,288	1,275
Europe	1,263	1,537	1,292	1,139	905	864
Latin America	381	727	715	615	454	149
Total Sales	6,011	6,903	6,137	5,321	4,874	3,010
Sales of Methanex production	4,479	5,049	4,580	3,939	3,403	2,264
Sales of Methanex purchased product	1,532	1,854	1,557	1,382	1,471	746
Total world production (Source: CMAI)	26,154	25,913	24,718	23,151	21,973	20,321
World merchant market (Source: Industry composite est.)	17,000	16,800	16,100	15,400	14,800	14,400

1 CMAI data sourced from 1998 World Methanol Analysis

Supply—Methanol Capacity Additions

(thousands of tonnes)

	START-UP	CAPACITY
PT Kaltim, Indonesia	Q1 1998	660
Meth IV, Trinidad	Q2 1998	550
Methanex, Chile III	Q2 1999	975
QAFA, Qatar	Q3 1999	850
NPC, Iran	Q3 1999	660
Ar Razi IV, Saudi Arabia	Q3 1999	850
Titan, Trinidad	Q4 1999	875
AMPCO, Equatorial Guinea	Q2 2001	825
YPF, Argentina	Q3 2001	400

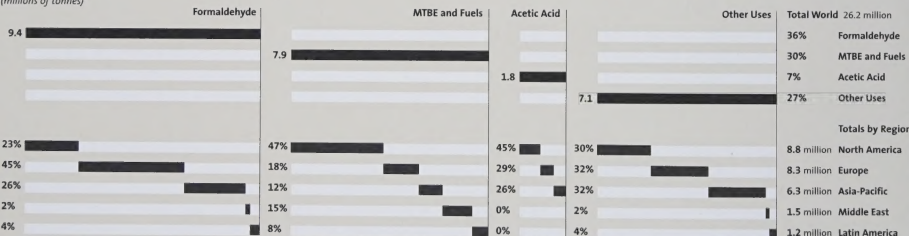
Note: Included in this table are only those significant projects known to Methanex to be either underway or probable before 2002

1998 Sales Distribution by Region



1998 World Methanol Consumption

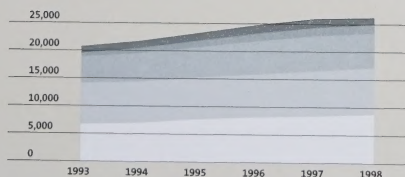
(millions of tonnes)



Source: CMAI

Regional Demand Growth 1993-1998

(thousands of tonnes)



% of World Market

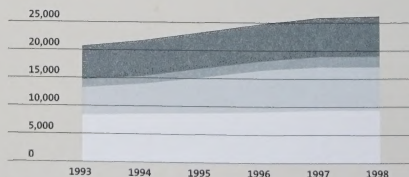
% Growth Rates (98/97)

North America	33%	4.6%
Europe	32%	3.7%
Asia-Pacific	24%	-1.7%
Middle East	6%	4.0%
Latin America	5%	-24.4%

Source: CMAI

Derivative Demand Growth 1993-1998

(thousands of tonnes)



% of World Market

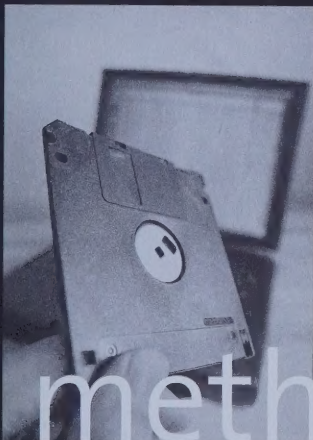
% Growth Rates (98/97)

Formaldehyde	36%	0.1%
MTBE	30%	-0.3%
Acetic Acid	7%	0.4%
Other	27%	3.5%

Source: CMAI

methanol at work

adhesives
bleached paper
composite wood products (furniture)
computer disks (magnetic film)
foam cushioning
inks
paints
polyester carpets
videotape (magnetic film)

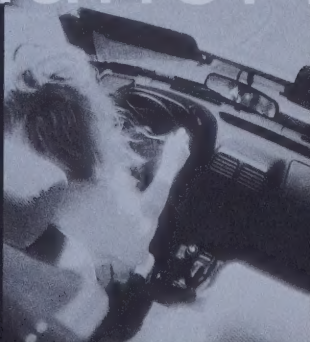


methanol at play

composite wood products (equipment)
moulding compounds
paints
plastics
Polarfleece
polyester fabrics
polyester fibrefill
Spandex
textile treatments



methanol in our lives



methanol at the wheel

body and door panels
bumpers
fuel
fuel additives
lights
paints
polyester carpet and fabric
safety glass laminate
seat foam
tire core adhesive
windshield washer fluid



methanol at home

aerosols
composite wood products (construction)
decorative laminates
disinfectants
fertilizer
insulation
mattress foam
medication
plastic pop bottles
refrigerants
silicone sealants

Methanex Corporation

1800 Waterfront Centre
200 Burrard Street
Vancouver, British Columbia
Canada V6C 3M1

Telephone 604 661 2600
Facsimile 604 661 2676
E-mail invest@methanex.com
Internet www.methanex.com



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